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FEDERAL SECURITIES LAWS AND DEFENSE CONTRACTING—Part 1

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON
ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

OVERSIGHT OF THE FEDERAL SECURITIES LAWS AND DISCLOSURES
THEREUNDER BY THE GENERAL DYNAMICS CORP.

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FEDERAL SECURITIES LAWS AND DEFENSE CONTRACTING

THURSDAY, FEBRUARY 28, 1985

House of Representatives,
Committee on Energy and Commerce,
Subcommittee on Oversight and Investigations,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 2123, Rayburn House Office Building, Hon. John D. Dingell (chairman) presiding.

Mr. Dingell. The subcommittee will come to order.

We thank all present for being here.

The Chair has, before we commence today, a brief opening statement which I will proceed to read.

Rules X and XI of the Rules of the House of Representatives assign to this subcommittee responsibility for the Federal securities laws and, therefore, for the Securities and Exchange Commission, and corporations regulated by that body. The committee and its oversight subcommittee are charged with reviewing on a continuing basis the administration of laws to ensure that they are adequate and adequately enforced.

A concern which has been growing in the committee has been the stability of our financial markets. And the Chair observes that depends upon the American investor believing in the fundamental values of companies whose securities are traded in those markets. Incomplete, inaccurate, misleading information, or information available only to insiders destroys the investor confidence and ultimately the effectiveness of the capital markets of this Nation. Investor confidence depends upon accurate and timely information, honest corporate management and a stock market that is fair and is not rigged.

The subject of today's hearing is the General Dynamics Corp., a company whose securities are listed and traded on the New York Stock Exchanges and various regional stock exchanges, and which is subject to the reporting requirements of the Securities and Exchange Commission. For some time, a number of allegations have been coming to the fore involving the company and Federal security laws, and these have been circulating rather widely.

About 1 year ago, this subcommittee began looking at these allegations. Since that time, the subcommittee has received documents, obtained tape recordings, interviewed witnesses, and reviewed investigations conducted by the SEC, the Department of Justice, and the Navy Department into various aspects of the company's activities. Government auditors from the General Accounting Office have been assigned to help the subcommittee.

Although the assertion has been made that our inquiry depends upon the allegations of a disgruntled excorporate officer and fugitive from justice, the fact is that the evidence now before the committee is objective. It is supported by documents and it is not dependent upon hearsay or allegations. It reflects the careful review of many thousands of records and the interviewing of many dozens of witnesses.

General Dynamics is the largest defense contractor in the United States; 94 cents out of every dollar it takes in comes from the Department of Defense. A significant number of its corporate executives and officials are former military or civilian employees of the Department of Defense. By virtue of its size, General Dynamics is the industry leader which stock market analysts use as a benchmark to evaluate the economic health of the industry and to compare it with smaller companies within the industry group.

In addition to the present investigation, the subcommittee has begun a legislative oversight inquiry into the accounting profession and the Securities and Exchange Commission and the relationship of those two bodies. As part of that inquiry, the subcommittee will review in greater detail the contracting and reporting practices of defense contractors and will include some of the information developed in the course of this investigation of General Dynamics.

Today the subcommittee is focusing on certain matters involving the Federal securities laws. These include stock manipulation, false books and records, the Foreign Corrupt Practices Act, and full and fair disclosure to stockholders and investors.

Stock manipulation, the deliberate issuance of false information to protect or to affect the price of stock, is a serious violation of the securities laws. Withholding critical, damaging information is another form of manipulation. The securities laws were specifically enacted to stop these, amongst other forms, of abuses.

Corporate management are the trustees of the assets of the stockholders, and as such have a fiduciary duty to inform the stockholders fully and correctly. The integrity of management is essential for investor confidence. Inflated compensation not reported, corporate boards with unindicted but admitted felons, false recordkeeping—these all are serious questions and raise further serious questions about how well the stockholders are being served.

The jurisdiction of the committee is clear. Our inquiry is directed at the effectiveness and the adequacy of the Federal securities laws. As our investigation has progressed, the subcommittee has alerted our sister committees as appropriate and various Government departments and agencies of matters that we have found to be within their responsibilities.

During the course of this inquiry, however, the committee cannot ignore the adjuration of President Eisenhower in his farewell address. He said this:

> In the councils of Government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.
>
> We will not let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted. Only an alert and knowledgeable

> citizenry can compel the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together.

These goals of which President Eisenhower spoke cannot be achieved without the fair enforcement of all laws to which corporate America is subject. That is why we are here today.

The gentleman from Pennsylvania is recognized.

Mr. **Ritter.** Mr. Chairman, I would like to be recognized to make an opening statement.

Mr. **Dingell.** The Chair will recognize the gentleman just as quickly as he can. The Chair asks—how many members have opening statements?

[Show of hands.]

Mr. **Dingell.** The Chair will advise that opening statements be conducted in conformity with relevance to the business of the committee before us today, and recognition will be given for that purpose.

The gentleman from Minnesota, Mr. Sikorski, is recognized.

Mr. **Sikorski.** Thank you, Mr. Chairman.

As I was reading the voluminous documents of evidence in this matter, I was struck by the fact that businesses in my district in Minnesota do not lead the charmed life of General Dynamics and its select top executives.

Who else can record the largest loss in history, over $5 billion, for tax purposes, at the same time record a $2 billion profit for SEC purposes, and still pay no Federal income taxes since 1972?

Who else can buy in on a major defense contracts, do a miserable job of managing the construction of the weapons system, overrun fixed-price contracts by $1 billion, be willing to settle a claim against the Government for $150 million, and later receive close to $1 billion in taxpayers' money?

Who else could use nonconforming steel in a submarine, foul up the welding program, suffer a total collapse of its quality control program, make a preposterous claim against the Navy insurance process, and then obtain another Government bailout?

What small contractor could suffer the wrath of the Secretary of the Navy, go to the White House and meet with Mr. Meese, then have a pleasant meeting with the Secretary of the Navy that results in the Assistant Secretary running out to your corporate limousine like a puppy dog to assure you that the Navy will take care of you? And where else can that Assistant Secretary get hired 18 months later as an executive vice president? Mr. Chairman, the questions continue.

What small contractor could knowingly violate a contract by providing illegal gratuities to a top Navy admiral, falsify the books of the corporation to hide those gifts, have the chairman of the board and the chief financial officer participate in the coverup, and then promote the bagman and receive 1 billion dollars' worth of Government contracts, just weeks after the facts are revealed?

What top official of a small contractor, like the companies in my district, has access to an extensive fleet of corporate jets, to get away to his family plantation and other pleasure spots—and keep in mind that this is charged to the Government—and at the same time have records about the nature of those flights altered in order to hide the identity of the passengers?

How many other chief executives would nominate for a position on the board of directors a fellow who was under criminal investigation by a grand jury for admittedly having bribed a bunch of State legislators and falsified the corporate books in an embezzlement scheme to get his bribery money back?

Of course, it helps to be the son of the principal stockholder.

Equally important, how did he obtain a top secret security clearance from the Department of Defense while under grand jury investigation for bribery?

What other corporation would have a top official distribute classified data, including colored photos of our Nation's most sensitive weapon system, to an individual outside the corporation and still allow that official to stay with the corporation?

It goes on and on. There is something very wrong with the way we procure weapons systems in this country, and particularly the way the Department of Defense oversees and enforces these contracts, especially with this, the largest defense contractor.

Americans are disgusted with the cheating, coverups, deceptions, and the squandering of taxpayer money by General Dynamics, with full knowledge and cooperation of Defense. They should be outraged as well at the security breaches that have gone hand-in-hand with this fraudulent management.

Thank you, Mr. Chairman.

Mr. DINGELL. The Chair thanks the gentleman.

Would other members of the subcommittee be desirous to make a statement?

The gentleman from Oregon.

Mr. WYDEN. Thank you, Mr. Chairman.

First of all, I want to commend you for scheduling this hearing, Mr. Chairman, because I think this is one of the most important hearings that the Congress will hold this year, and in particular I want to commend the staff for an absolutely superior job of taking a very complicated set of issues and assembling them so we can examine this matter in an orderly way.

My colleague, Mr. Sikorski, I think has outlined a number of issues, and all of them very well, and I have just a couple of quick comments.

It seems to me that the evidence that we have accumulated today indicates that the top management in General Dynamics fostered and encouraged an attitude that they were above the laws of the United States. They seem to feel that they are accountable to no one; not to taxpayers, not to shareholders, not to the Federal agencies from which they receive very lucrative contracts under very questionable circumstances.

What I have seen so far, Mr. Chairman and colleagues, is a textbook case of how to fleece the American taxpayer.

I have only one other comment, Mr. Chairman. I come from a small Western State, the State of Oregon, and we have very few defense contractors, no major military installations. We have our share of the defense budget, we contribute about $3 billion a year. The citizens in my State are very willing to do that because they know that we need a strong national defense in this country. But what they are not willing to do is support a system that is corrupt, and what we have seen indicates that we face a very serious case of corruption in our largest defense contractor in this Nation, and now we have to get to the bottom of it and turn it around.

Thank you, Mr. Chairman.

Mr. **Dingell**. The Chair thanks the gentleman.

Any further opening statements?

The gentleman from Alabama seeks recognition.

Mr. **Shelby**. Thank you, Mr. Chairman.

As I understand it—and I am quoting a 17th century English scholar—he said: "It is not fit that the public trust should be lodged in the hands of any until they are first proved and found fit for the business they are to be entrusted with."

Mr. Chairman, to a certain degree we are gathered here today in this committee to determine whether the company in question, General Dynamics, has indeed violated that trust, a trust which goes hand in hand with the nature of their work.

General Dynamics is not in the business of supplying cookies and milk for congressional cafeterias. It is entrusted with helping to maintain the most sacred duty of this Government, national defense.

Consequently, by violating the tenets of that trust, General Dynamics may be weakening the very bond which has so ably served this Nation for 200 years.

Democracy, said George Bernard Shaw, is a device which ensures that we will be governed no better than we deserve.

Mr. Chairman, our democracy is only as strong as the will of the people to abide by its values. Hopefully these hearings will show that when somebody violates the public trust and does what obviously has been done to the American taxpayer, that there's got to be a day of reckoning here in the Congress.

Mr. **Dingell**. The chair thanks the gentleman.

The Chair will recognize now a member of the full committee, not a member of the subcommittee, for a brief opening statement relative to the business of the committee today.

Mr. **Ritter**. Mr. Chairman, I have a statement which I believe is very relevant to the business of the committee today simply because the American people deserve a fair distribution based on the membership in the House and the ratios on the full committee.

Mr. Chairman, 42 percent of the members of the House of Representatives are——

Mr. **Dingell**. The business of the subcommittee today is the question of the investigation that the staff has completed relative to compliance of General Dynamics with the securities laws. If the gentleman desires recognition for that purpose, he will be recognized. If the gentleman does not desire recognition for that purpose, he will not be permitted to speak.

Mr. **Ritter**. Mr. Chairman, point of order?

Mr. **Dingell**. The gentleman is not a member of the subcommittee for purposes of making motions. He has been afforded, as a member of the full committee, the opportunity to make a brief statement relative to the business of the subcommittee today.

Mr. **Ritter**. Mr. Chairman, Mr. Bates is not a member of the subcommittee.

Mr. DINGELL. The Chair thanks the gentleman. The Chair is in charge of the conduct of the business of this committee. If the gentleman were a member of this subcommittee or were addressing the questions of the business of the committee today, the Chair would be quite pleased to recognize the gentleman.

Mr. RITTER. Mr. Chairman——

Mr. DINGELL. The Chair does not recognize the gentleman.

The gentleman from Ohio is recognized. The Chair hopes the gentleman wil not say all rise.

Mr. ECKART. Mr. Chairman, I have a brief opening statement.

Mr. DINGELL. Mr. Eckart, you may make your statement.

Mr. ECKART. Mr. Chairman and members of the committee, I am new to this subcommittee and thus have followed only peripherally to this time the matter of the subject of this hearing that is before us.

I happen to believe fundamentally that perhaps the single most important prerogative of Government is keeping the peace. We keep the peace internationally through our military and international obligations, we keep the peace in our communities through police and fire and school crossing guards. There has to be a consensus, a local consensus and a national consensus, perhaps even a moral consensus, of Government's willing to pay for and assume the responsibilities of keeping that peace.

For many in my generation, it meant dying in a far-away land, in a war that few understood and some even disliked. Part of that price, thus, is the loss of life. Another part of that price is the loss of financial purchasing power through the payment of taxes for the preservation of keeping that peace.

Whether it is the police officer on the street corner who gets accused of participating in a scam or the Nation's largest defense contractor that faces serious allegations before it, in both instances the moral imperative of Government's responsibility to keep the peace is damaged, and thus they have contributed to an erosion of the national consensus or the community consensus to preserve the peace either on the street corner or on the far away corners of the globe.

I think the fundamental question that this inquiry presents to me is not the specifics of the charges before us as to whether specific laws have been broken, but to what extent has the national consensus for a strong defense has been damaged, damaged not by those who seek unilateral disarmament, damaged not by our adversaries who threaten us in many corners of the globe, but by our own American citizens who have placed personal gain beyond that of the moral imperative to keep the peace.

That is a question that perhaps transcends any particular chapter or verse of American statutory law. I think it is a bigger question that you have to answer as to not whether you kept or broke the law but whether you have kept the faith with the American people who have paid the price with their dollars and their lives for 200 years.

Thank you, Mr. Chairman.

Mr. DINGELL. The Chair thanks the gentleman.

The Chair has an announcement.

Mr. Ritter. Mr. Chairman, I do have a relevant opening statement to make, and I would like to be recognized.

Mr. Dingell. The Chair has afforded the gentleman an opportunity for an opening statement. The Chair will inquire, is his statement about the business of the subcommittee today or about the size of the subcommittee?

Mr. Ritter. I would respectfully submit that it is about the business of the committee today.

Mr. Dingell. The Chair, on the basis of the gentleman's statement, is not able to recognize him at this time.

The Chair has an announcement, as follows. The Chair wrote to Secretary Weinberger raising serious questions about one Mr. Lester Crown, a member of the board of directors of General Dynamics, who had obtained a top secret security clearance in the middle of a grand jury investigation of allegations of bribery relative to State legislators in Illinois.

The subcommittee was informed on Tuesday that Mr. Crown and the corporation had failed to inform the Department of Defense about this adverse information as required under an assortment of various security requirements.

Last night at 8 o'clock, the subcommittee was informed by Secretary Weinberger's office that the Secretary had directed that immediate action be taken to see if Mr. Crown should keep his top secret security clearance. A letter to that effect from Secretary Weinberger was received in the subcommittee offices this morning.

The Chair announces that our witness list today are the following: Mr. David S. Lewis, Mr. Gorden E. MacDonald and Mr. James R. Ashton. The Chair announces that Mr. Ashton will not appear as part of this panel, but Mr. Lewis and Mr. MacDonald will appear as a panel.

Gentlemen, if you will come forward to the witness table, please.

Gentlemen, there are certain items of preparatory business which must be conducted as you appear. First, for your assistance, at the committee table there are copies of the rules of the House, the rules of the committee, the rules of the subcommittee relative to appearance of witnesses before the committee. Those are to inform you of your rights and also of the limitations on the power of the committee in its conduct of its inquiry.

The first question, gentlemen: Do either of you object to appearing under oath?

Mr. Lewis. No, sir.

Mr. MacDonald. No, sir.

Mr. Dingell. The second question, gentlemen: Do either of you desire to have counsel with you at the witness table this morning?

Mr. Lewis. We have counsel, Mr. Chairman.

Mr. Dingell. Do you desire to have them sit at the witness table with you?

Mr. Lewis. No. They are behind us here.

Mr. Dingell. It is your right to have them at the witness table if you so choose.

Mr. Lewis: No.

Mr. Dingell. Gentlemen, then if you have no objection to being sworn, if you will each please raise your right hand.

[The witnesses were sworn.]

Mr. DINGELL. Gentlemen, you may consider yourselves to be under oath. If you would each identify yourselves for purposes of the record, we will recognize you first, Mr. Lewis, and then Mr. MacDonald. Gentlemen.

Mr. LEWIS. Mr. Chairman, I am David Lewis, Chairman of the Board of General Dynamics.

Mr. MACDONALD. And I am Gorden MacDonald, I'm executive vice president and chief financial officer.

Mr. DINGELL. Gentleman, Thank you for being with us. If you will now proceed with such opening statements as you choose.

TESTIMONY OF DAVID S. LEWIS, CHAIRMAN OF THE BOARD, GENERAL DYNAMICS CORP., ACCOMPANIED BY GORDEN E. MACDONALD, EXECUTIVE VICE PRESIDENT

Mr. LEWIS. Thank you. We have prepared a detailed written statement setting forth our company's position on the subjects that we were advised by your letter of February 8 would be the subject of this hearing.

With your permission, Mr. Chairman, I would like to place this in the record. Thank you, sir.

Mr. DINGELL. Without objection, the entirety of your statement will appear in the record and we will recognize you for such additional comments and statements as you choose.

Mr. LEWIS. Thank you very much. I would like to make this statement, and I hope that when the proceedings are over, that many of the concerns expressed by the members of the committee, their minds will be put at ease and we will be able to answer and convince than of the merits of our position.

We welcome the opportunity to appear today to attempt to set the record straight after a year of unremitting and unfair criticism and condemnation of General Dynamics, its executives and its employees. All of this has emanated from malicious and untrue allegations made by a former employee, Takis Veliotis, who is now a fugitive from justice in his native Greece. There, he deigns to grant audiences to the news media, congressional staff investigators and Justice Department personnel at his convenience.

Commencing with Veliotis' false accusations about our electric boat division, which he once managed, investigations have gone far afield into many aspects of General Dynamics operations, its practices and its legitimate charges against Government contracts. Without exception, the hallmark of the adverse material that has been released to the news media about our company has been misrepresentation and exaggeration.

I am not here to say that our company is perfect, Mr. Chairman. We are made up of individual human beings, many of whom are constituents of members of this committee. We do many things well and we make our share of mistakes. But those are human errors.

I refuse to accept any portrayal of our company or its people as being dishonest or lacking in integrity in our dealings with the U.S. Government or our many other valued customers.

General Dynamics is an honest and reputable company. Its people operate in accordance with the highest ethical standards. Its activities are guided by policies set forth in written directives that conform completely with U.S. Government laws and regulations. The company employees take those policy statements seriously and perform accordingly.

Our company has grown and prospered over the last years by providing high quality products to the U.S. Defense Department, to NASA, to a number of America's allies and to our commercial customers. In 1971, General Dynamics employed about 67,000 people, of whom about 50,000 were working on some 25 programs for the U.S. Government. Today we have 99,000 fine men and women working for our company. Of these, approximately 93,000 are entrusted with about 65 major United States and allied government programs.

The company has more than 1,000 contracts with the Department of Defense and other U.S. Government agencies, and in addition, we have contracts to supply military systems through the U.S. Government to 20 other countries.

We have been entrusted with some of the most important and successful programs in our country's military inventory. Among these, the F-16 fighter bomber, the Trident ballistic missile submarine, the M-1 Abrams main battle tank, the Tomahawk cruise missile, the ground-to-air Stinger, and Standard missiles.

This trust and our company's growth has been possible only because the Defense Department, the armed services and the Congress are confident that General Dynamics is an honorable organization, determined and able to meet its commitments to the Nation.

Unfortunately, the difficulties experienced by General Dynamics in the 1974 to 1982 time period on one program, the 688 attack submarines, have tended to obscure the splendid job done by the dedicated men and women of all of our divisions, especially Electric Boat.

In any major corporation there are likely to be a few individuals who place opportunity for personal gain above their company's requirement to meet ethical standards. A classic example is certainly the fugitive Veliotis, living in Greece, confident that he is secure from extradition back to the United States to face trial or to face the questioning of this committee.

About 16 months ago, Veliotis was indicted by a Federal grand jury for receiving kickbacks of $1.3 million while he was general manager of our Quincy Shipbuilding Division, in addition, he was indicted for perjury committed in 1980 when he was general manager of Electric Boat. General Dynamics cooperated fully with the Justice Department in the investigation that led to the indictments of Veliotis and others involved in the case.

Immediately after learning of those indictments, General Dynamics filed court actions to locate and freeze Veliotis' assets wherever they could be found. Those assets, totaling some $6 million, included his account with a brokerage firm in Canada. Veliotis attempted to get General Dynamics to release to him some or all of the funds in that account. He stated that he had in his possession documents and tape recordings of telephone conversations which, if released to the news media and to this congressional committee, would "sink General Dynamics." He threatened to take early action to release those materials if General Dynamics did not comply with his demands.

I refused to accede to this attempted extortion on the basis that it was necessary for us to protect the assets which we contend are the property of the shareholders of General Dynamics, whereupon, in early 1984, Veliotis carried out his threat and started his campaign against our company and our people, which is precisely why we are here today.

He began by telling the news media that General Dynamics had prepared and submitted fraudulent claims to cover the cost of overruns on the contracts for the 688-class submarines. Those claims, submitted in 1976, were resolved by a compromise settlement between the Navy and General Dynamics, which ultimately resulted in this company losing $488 million.

Veliotis had not even arrived at Electric Boat until long after the bids on those contracts were prepared, and a year after the claims were filed. He had no firsthand knowledge of the claims. Now, on the basis of his charges, this issue has been reopened, this despite the fact that investigations of possible fraud on those contracts were carried out by grand juries in 1979 and 1980 at the instigation of Admiral Rickover. Those investigations were closed by the Justice Department in 1981 because not a shred of evidence could be found to support his allegations.

Veliotis, with no facts to present, succeeded in raising this issue. He created great excitement in the news media and caused extensive investigative activity which, to the best of our knowledge, has produced no new evidence whatsoever, but the eagerness of the press to sensationalize Veliotis' fantasies has done great harm to the reputations and morale of our people.

Veliotis' allegations about the claims and his subsequent charges on other matters quite naturally attracted and quite properly attracted the interest of several committees of the Congress. Investigators went to Athens to interview Veliotis to glean whatever he was willing to give them, including documents and tape recordings he had secretly made of telephone conversations among corporate executives and with high-ranking Navy officers. Veliotis also provided his own interpretations of those documents and tapes, which interpretations were faithfully recorded by the news media.

It is incomprehensible that the word of Veliotis, indicted for lying under oath, has been so eagerly accepted by news reporters and by staff investigators, while accurate explanations given by General Dynamics people knowledgeable of the facts have been largely ignored.

Veliotis' tapes formed the basis for two of the allegations which are the subject of this hearing. His twisted interpretations of the tapes and of internal company documents have resulted in other areas of inquiry.

The subcommittee's issues as set forth in the chairman's letter to me fall into four broad categories; the adequacy of our financial disclosures as required by the SEC, alleged stock manipulation, alleged gratuities to Admiral Rickover and other military officers, and the use of corporate aircraft.

First, we have been accused of not providing timely financial disclosure. General Dynamics has consistently met the financial disclosure requirements of the SEC. Veliotis' allegations, based on his interpretation of a taped 1981 telephone conversation, are false.

Our company consistently has made timely disclosure of cost overruns and all other financial impacts relating to the submarine programs and other programs, when a change in outlook has been certain enough to warrant disclosure.

We've been accused of stock manipulation. There has been no stock manipulation by this company. With regard to Veliotis' 1977 tape, the company at the time of that telephone conversation was making a strenuous effort to correct major inaccuracies appearing in the news media as a result of a confused Navy press briefing which erroneously indicated that the Trident program would incur a loss.

Previously, the company had advised its shareholders that the program would be profitable. Following the Navy briefing, the company's stock price dropped. It was vital that a corrective press release be issued by General Dynamics, and quickly.

Regardless of what Veliotis and others attempted to infer from the tape, which we believe to be incomplete and possibly altered, the actual reason for the press release was to reassure our stockholders and the public that we believed that the Trident would be profitable, and it has been. Mentioning the possibility of a delay in the delivery date of the first Trident in the press release was strictly a secondary issue. The fact that a change in the delivery date of the first Trident was unimportant to the price of our stock was borne out a few months later when the Navy issued our revised forecast that the Trident delivery would be delayed another 7 months, and the price of the General Dynamics stock was essentially unaffected.

Data showing the performance of General Dynamics stock before and after that announcement is on page 25 of our prepared statement.

Next, we have been accused of violating Navy contracts by giving illegal gratuities to Admiral Rickover. In 1977, our company purchased two pieces of jewelry costing a total of $1,125 for Admiral Rickover to give to his wife. It was ill-advised and we regret having done so, even though in each case it was in response to a request from the Admiral himself. However, giving those gifts did not violate our Navy contracts because it was not done with any intent to obtain favors from him in the award or performance of contracts. That intent must be present in order to violate the contract.

There were other items provided to the Admiral over the years of minor consequence in response to his, or the Navy's, requests. Most of these were for food or other provisions for sea trials which the Navy requested as sort of a contract extra and which the Navy itself supplied for later sea trials.

A number of other items described as gratuities to him were actually launching mementos and similar gifts that were for other people but which he presented to them to publicize and gain support for the submarine programs.

We have been accused of providing meals and entertainment to other military officers. Our company's policies with respect to these matters are consistent with Defense Department directives. The standards of conduct of our employees with respect to entertainment, like those of the Department of Defense, are clearly articulated. But from what our people have seen of documents supplied to the staff of this committee, it appears that our entertainment policies have not been adhered to as well as we would wish. We are looking into this situation further to determine what improvements can be made.

We've been accused of failure to require documentation of employee expense vouchers. To that, I reply that our vouchers are documented in accordance with government acquisition regulations.

With respect to reimbursement, the government should be asked to reimburse the cost of only those items properly chargeable to government contracts. There are occasional slip-ups, some are found by our accountants some by the DCAA. The government contracting procedures call for negotiation of all disagreements with respect to cost reimbursement, and we believe those procedures work well. We believe those negotiations generally weed out items which are inappropriate charges against government contracts.

We have been accused of the misuse of corporate aircraft. We believe that the use of corporate aircraft by our senior management has helped provide the most effective and efficient use of our time, and even more important, has offered personal security from threats inherent in our business.

Consistent with the practices of other companies in similar lines of business, the executive committee of General Dynamics' board has directed that I use corporate aircraft for all flights whenever reasonably possible. This direction is to provide security for many reasons.

Let's keep in mind that we manufacture some of the most controversial weapons systems in the world. The Trident nuclear-powered ballistic missile submarine; the Tomahawk nuclear warhead cruise missile, which is being installed in NATO countries at this time; the F-16 fighter bomber used against the Arabs by the Israeli Air Force with a devastating effect in actions against the Iraqi nuclear installation and in the war against Syria.

Our company's concern about security protection for its senior management is not an idle one. Here is what we have faced in the last 10 years: 584 demonstrations and incidents or property destruction at our facilities; 103 bomb threats; frequent picketing of our corporate headquarters; picketing of my home; assassination threats against company officers; violations of law by demonstrators and intruders leading to over 1,000 arrests at our Electric Boat Division alone; invasions and disruptions of our shareholders' meetings.

Our use of corporate aircraft for purposes not directly related to Government contracts has been badly misunderstood and misrepresented. Over the 6-year period 1978 to 1983, all costs not directly related to our Government business by all corporate office personnel totaled $921,810, about 9 percent of the cost of the total flights.

None of this is now in our proposal for cost reimbursement on Government contracts. Of that $921,810, $105,176 was the cost of my use of the aircraft to provide security for all of my well-publicized flights to my farm in Georgia and to other places where no specific business purpose could be attributed, during that entire 6-

year period. That is an average of $17,529 per year. This is a far cry from the news media descriptions of flights to my farm, portraying the costs as being anywhere from $½ million dollars to $26 million.

A related issue has been raised as to whether there was proper reporting in respect to the perquisites in our proxy statements. The answer is "Yes". In no year did the total value of all perquisites received by me or any other officer of General Dynamics including the cost of flights with no specific business purpose, exceed the reporting threshold set by the SEC.

Also related to aircraft use is the suggestion that we have improperly altered our flight records, presumably to change nonreimbursable personal flights into reimbursable training flights. This is untrue. Out of the 3,444 flights by corporate office in the 1978–83 period under review, we know of only six cases where the records were changed, and those changes were made to indicate that pilot proficiency training requirements were being carried out.

The records involved, which were taken away by the subcommittee's staff, are not used in the negotiations for reimbursement. The trip records that are used for those negotiations listed the six flights as training; however, they clearly show the name of the principal passengers and the destinations, so that each could be considered on its merits by Government auditors. As a matter of fact, no passengers were carried on four of those flights due to the nature of the training maneuvers scheduled.

General Dynamics has cooperated fully with this staffs of the subcommittee and others as they have carried out their proper investigations. The company has made available the financial records of its corporate headquarters, of its Washington office, as well as those of its divisions. Investigators have poured over the company's most sensitive documents, some of which contain information highly important from a competitive standpoint. They have obtained and studied documents covering subjects which were, and still are, in the process of being analyzed by the DCAA and others which were being negotiated with Government contracting officers.

Those costs, which form a part of the corporate overhead accounts, are always the subject of intense, arm's-length negotiations with the Government's contracting officers. Until settlements are reached, it's impossible for any outsider to forecast which costs will be considered allowable, and which will be rejected by the Government as unallowable.

The allowability of overhead costs has always been determined in accordance with well-established Government procedures, and those procedures are continuing.

In closing, I would like to say that I hope the remarks I have made in the statement that we have submitted for the record will assure the subcommittee that our company tries to conduct itself in an honorable manner in its dealings with its customers with the various regulatory agencies and with the Congress. We recognize, in hindsight, that there are some things that we have done that we would do differently today, but it has never been our conscious intention to be anything but responsible corporate citizens.

I say again, that over the past year our company and its people have been badly maligned by forces beyond our control. We are determined to leave no stone unturned to restore our reputation as a responsible corporate entity made up of responsible men and women dedicated to their jobs and the service of our Nation.

Thank you very much. Mr. Wyden, Mr. MacDonald and I are prepared to respond to any questions.

[Testimony resumes on p. 49.]

[The attachments to the prepared statement of Mr. Lewis follow:]

1. THE ADEQUACY OF FINANCIAL DISCLOSURES TO THE SEC AND THE SHAREHOLDERS

SUBCOMMITTEE ISSUE: Allegations have been made that General Dynamics' financial disclosures to the SEC and the shareholders have been inadequate, particularly with respect to the SSN 688 submarine construction contracts.

GENERAL DYNAMICS POSITION: Our company's first two SSN 688 submarine contracts have been the cause of serious financial difficulties for General Dynamics from about 1974 until the last submarine covered by those contracts was delivered in late 1984.

Beginning with the company's Annual Report for 1974, continuing through the end of 1982, there have been 24 General Dynamics Annual Reports and Quarterly Reports containing disclosures of the status of incurred costs, predicted overruns, claims submittals and settlements on the SSN 688 program. Those formal reports were supplemented by many press releases and by the normal filings with the SEC.

Our outside auditors were fully advised of the estimates of cost growth and the claims prepared to recover those costs.

General Dynamics firmly believes that this important subject, with all of its ramifications, has been accurately and responsibly disclosed in a timely fashion to the SEC, to our shareholders and to the investing community.

DISCUSSION: This issue apparently stems from a telephone conversation among Veliotis, Gorden E. MacDonald, Executive Vice President - Finance, Warren G. Sullivan, Vice President - Industrial Relations, and me, which was recorded by Veliotis without the knowledge of the other participants.

The purpose of the telephone call was to dissuade Veliotis from immediately discharging James E. Ashton, who was then serving as Electric Boat Assistant General Manager - Engineering. Veliotis wanted to fire Ashton because he considered that Ashton was not doing a satisfactory job in the position to which he was assigned, that he had involved himself in a nonconstructive way in production operations to which he was not assigned nor qualified, and that he was taking other actions that were inimical to the best interests of Electric Boat and General Dynamics.

Ashton had been a valued employee of General Dynamics since 1967. He had served in various engineering functions at our Convair and Fort Worth aerospace divisions and had made good progress in those engineering assignments. The company believed that Ashton had the potential for broader responsibilities, and in 1974 he was transferred from Convair to Fort Worth to serve as the Director of Division Planning. In late 1975, Ashton was transferred to the manufacturing department of Fort Worth, where he performed production engineering functions. In early 1979, upon the retirement of his predecessor, Ashton was promoted to the position of Division Vice President for Production of the Fort Worth Division. At that time, Fort Worth's principal output consisted of the F-16 aircraft production program, which program has proceeded smoothly from its beginning in 1975 to date.

In 1980, Veliotis advised me that he would like to give up the General Manager's position at Electric Boat after the first Trident, the Ohio, was delivered (in late 1981), and then move to a higher level job which would have responsibility for both the Electric Boat and the Quincy Shipbuilding Divisions. We had previously discussed such a move. Veliotis stated that he saw no obvious candidates in the Electric Boat Division to succeed him as General Manager.

It is the normal practice in General Dynamics to give consideration to qualified people from all divisions, when it becomes necessary to fill an important position in any division. Following this practice, Ashton's name was among those placed on the list of those to be considered for the Electric Boat job. My opinion, at the time, was that Ashton did have the potential to take on greater responsibility. While there was real concern that he was "moving up too fast" and that he had no experience in the engineering or production of submarines, it was felt that if he was assigned to an engineering position, there was a reasonably high probability that he could learn the business and grow into the position of General Manager in a reasonable period of time.

Ashton's name was suggested to Veliotis as a possible candidate. Veliotis visited Fort Worth, interviewed Ashton extensively and decided to take him on as Assistant General Manager - Engineering with the goal of helping Ashton grow into the General Manager's job. Ashton transferred to Electric Boat on October 20, 1980, after having been told in no uncertain terms by me and by Veliotis that while he was the only real current candidate for the position of General Manager of Electric Boat, there was no guarantee that he would be promoted to that position. Rather, he would get that promotion only if he proved himself ready and able to take on the job.

Almost immediately after his arrival, Ashton had great difficulties with Veliotis and his management peers at Electric Boat. So much so, that on December 30, 1980, after Ashton had been on the job only about ten weeks, Veliotis took the unusual action of sending Ashton a thoughtful memorandum that was highly critical of Ashton's performance, his attitude, his relations with the other key members of the management team and his overall management approach.

Ashton did not appear to profit from the constructive comments. Over the next several months, he spent less and less time carrying out his important duties as the head of Engineering, while spending a great deal of his time observing and involving himself in the production operations. While it was important for him to familiarize himself with this new technological world, he badly neglected his assigned job.

Going back to an earlier time, after the settlement in June 1978 of the major dispute between the Navy and General Dynamics with respect to the SSN 688 submarine construction contracts, the rate of directed changes in the program was greatly reduced, and submarine construction appeared to be moving forward quite smoothly, until the spring of 1979. At that time, evidence that some discrepant steel had been used in construction of some of the ships was discovered. This problem was quickly resolved. In December 1979 evidence of poor welding on the USS Bremerton, which was scheduled for delivery in January 1980, was uncovered. This discovery immediately led to extensive investigations to determine how widespread the problems were on the other boats under construction.

The Navy and the General Dynamics Board of Directors were immediately advised of the situation as Electric Boat set about determining the extent of the problems and implementing necessary corrective action. It was a complex task to identify good and bad welds and then tear down and rebuild submarines that were in various stages of construction. The identification of the problem areas and reconstruction activity continued throughout 1980 and 1981. During that time, estimates of the costs to complete the boats were frequently under revision, concurrently with the definition of the tasks required to be carried out.

It should be noted that in the June 1978 settlement of our dispute with the Navy, the Navy and the company agreed that the amount by which the estimated cost to complete the then contract would exceed the contract price by $843 million. The company accepted the Navy's negotiation position of $125 million in payment for the company's claims, which left a remainder of $718 million. Then the parties divided that $718 million, with the Navy providing $359 million in additional contract revenue and the company absorbing a loss of $359 million. It was understood that the estimated cost to complete could not be made with great precision since the boats were not scheduled for completion for another four years. The parties agreed that if the actual increased costs turned out to be lower than the $718 million estimate, the savings would be shared equally between the Navy and the company, while if the actual increased costs turned out to be more than the $718 million, the Navy would share in the overrun 50:50, only to the extent of the first $100 million. If the overrun to the $718 million exceeded $100 million, the costs were to be borne 100 percent by General Dynamics. This settlement was similar to those made in the same time period with two other shipyards.

In late 1979, Electric Boat management believed that the settlement amount would be underrun, with resultant savings to the Navy and the company. Then the problems on the Bremerton were discovered. As time went on, Electric Boat management became convinced that the total costs to complete the boats, including the rework and repair, would result in overruns to the 1978 settlement. However, it was believed that under the terms of the contract, the costs of the rework and repair should be charged separately to the Navy as the "self insurer" under the Builders Risk Insurance policy contained in our contracts. Such insurance is normally purchased to cover similar construction problems on commercial ships. The Navy, by change of policy made in World War II, had not allowed shipbuilders to purchase "Builders Risk Insurance" for Navy vessels and charge the costs to contracts.

General Dynamics obtained opinions from two legal firms and a marine insurance company that its position that the rework costs should be paid by the Navy was sound.

Navy officials were very upset when General Dynamics informally advanced the "insurance claim" concept in late 1980. In March 1981, Veliotis testified before the Seapower Subcommittee of the House Armed Services Committee where he outlined the theory of the insurance claims, and advised the Committee that claims were then being prepared to cover the problems of the Bremerton. The members of Congress present were clearly outraged by the idea that the company might be paid for purchasing material to replace discrepant material and for correcting defective workmanship.

The first formal action was taken by Electric Boat on June 16, 1981, when it filed its first insurance claim, which was on the USS Bremerton. After the first claim was filed, Navy officials said they would award no new contracts to Electric Boat unless the insurance claims were withdrawn, and they threatened to countersue General Dynamics for faulty workmanship if the company took its case to court. Throughout the summer and early fall of 1981, General Dynamics and the Navy were at loggerheads over this issue.

Members of senior management of General Dynamics, other than Veliotis, became convinced that if the company pursued its insurance claims against the Navy, the Department of Defense would fight these claims to the finish because the claims would create a precedent that would open Pandora's box to other Navy shipbuilders. We were concerned that, while we felt we probably would win our legal case when the trial and appeal process was completed many years down the road, future Navy business, as well as future business from the other services, could be adversely impacted to a disastrous degree. The company was faced with the problem of obtaining something of value for the assets represented by the insurance claims. In the fall of 1981, the Board of Directors of General Dynamics decided (over Veliotis' opposition) that management should attempt to settle its problems with the Navy on an equitable basis, so that we could once again be a viable competitor for Navy contracts. I had taken on the job of working with the Secretary of the Navy to try to find some solution to break the stalemate, while protecting the interests of the shareholders. The Electric Boat Division estimated that the problems resulting from the discrepant materials and the defective workmanship could result in an overrun of about $90 million over the 1978 settlement amount, and this number was supported fully by Veliotis.

It was at this critical period in early October 1981, that the subject telephone call concerning Ashton's future took place. I had been advised that Ashton had not been supportive of Electric Boat's activities with respect to the insurance claims and, in fact, openly disputed their validity. I had been advised that he had made his own estimates of the costs to complete the 18 SSN 688 submarines and that he had called members of the Corporate Office management to tell them that Veliotis' estimate of a $90 million overrun of the 1978 settlement figure was far too optimistic. I was further advised that Ashton had had discussions with the Navy with respect to his opinion that the insurance claim theory was worthless and with respect to his independent cost-to-complete estimate.

In an earlier telephone call, I discussed these issues directly with Ashton and urged that he stay out of those business areas where he had no experience nor responsibility. My direction was not heeded as Ashton continued his actions to undermine everything the company was trying to do with respect to the settlement of the insurance claims.

At this critical phase of my negotiations with the Secretary of the Navy, I felt that it would not be in the best interests of our company and its shareholders for Ashton to be summarily discharged. I was concerned that it would be erroneously perceived that he had been fired as a troublemaker, instead of for poor performance on the job, which would have been the case. Although I had not seen Ashton's cost estimate of the overrun to the 1978 settlement, I had heard that it was higher than those of Electric Boat and of the independent Corporate Office estimating team. While it was my opinion that the Electric Boat estimators were in the best position to estimate the cost of work remaining to be done, my concern did not run merely to differences in cost-to-complete estimates. I was more concerned about the Ashton efforts to undermine the validity of our insurance claims, which were our principal bargaining chips in negotiating a settlement of our outstanding differences with the Navy.

Throughout the 1980-1981 time period, our outside accounting firm, Arthur Andersen & Co., was fully apprised of the activities at Electric Boat and it had received an independent confirmation of the validity of the insurance claims. Also, as they had been in earlier years, Arthur Andersen people were familiar with the status of production operations in the Electric Boat yard. They were fully aware of the estimated cost overruns and were reasonably satisfied, as was our own management, that the insurance claims would be sufficient to cover those overruns. Accordingly, neither they nor we saw any need to declare a writeoff on those contracts.

Apparently the question is whether a company should immediately publicize an estimate of cost overruns by an employee not assigned to estimate overruns, even though management believes he is not qualified to make such estimates, and even though those responsible for such estimates have reached a different conclusion. To ask this question is to answer it.

To follow such a contention to its natural end would be to free management from any accountability or responsibility for appropriate disclosure, and to ensure chaos in the financial reporting of all corporations, with the result that the SEC would have absolutely no standards by which to oversee or regulate corporate reporting, particularly with respect to accurate and timely disclosure of fact.

2. ALLEGED STOCK MANIPULATION

SUBCOMMITTEE ISSUE: Veliotis alleges that portions of a series of telephone conversations between him and several others made on November 30, 1977, indicate that General Dynamics deliberately withheld information from the public with regard to a possible delay in the delivery date of the first Trident submarine in order to influence the price of General Dynamics stock.

GENERAL DYNAMICS POSITION: The allegation is completely untrue. General Dynamics had a clear disclosure requirement to correct an erroneous impression resulting from a Navy press conference on November 29, 1977, which indicated that a massive cost overrun of $400 million on the Trident submarine program was primarily the fault of Electric Boat and left a clear impression that the Trident program would be unprofitable. As a minor part of the press conference, the Navy indicated that its estimate of the delivery date of the Ohio, the first Trident, was six months later than the company's estimate at the time. On November 30, the Navy and General Dynamics released press statements, correcting the previous day's erroneous impression with respect to the cost overruns by attributing only 28 percent of the overrun to General Dynamics.

The issue of whether the Trident contract would be profitable or would incur a loss was vital with respect to SEC requirements and definitely would have had an impact on the price of General Dynamics stock. It was vital that the truth be known in order that the stock price could reflect that truth. Veliotis agreed on the cost issue, but in the portion of the conversation covered by his tape, Veliotis indicated his belief that the first delivery dates quoted by the company and the Navy were optimistic. However, he clearly stated that a new completion date estimate, which he had ordered, would not be available for several weeks. Therefore, he had no alternative date to recommend.

General Dynamics believes firmly that any announcement indicating that the delivery date of the Ohio would be three years in the future, instead of two and a half years in the future (the difference between the Navy's estimate and Veliotis' later estimate) would have had no impact on stock prices whatsoever.

DISCUSSION: On November 30, 1977, Veliotis taped conversations with Mr. MacDonald and several other persons without their knowledge. General Dynamics does not possess a copy of the tape, but Mr. MacDonald has heard it in the course of a Justice Department interview. He is convinced that significant portions of the conversation have been deleted and there may have been alterations of other portions.

Veliotis alleges that two statements in that tape prove that General Dynamics knowingly quoted an optimistic forecast delivery date for the first Trident submarine, Ohio, in order to keep General Dynamics stock from sliding. There is no question that the stock was sliding and there was no question in our minds that it was going down as a result of a confused and misleading press conference held on November 29 by officials of the U.S. Navy. The purpose of the Navy s press conference was to state that the Trident program would incur an overrun of $400 million and that delivery of the Ohio was forecast to be two and one-half years in the future, rather than two years in the future, as had been forecast by General Dynamics.

As a result of that press conference, the news media came away with the clear impression that the $400 million overrun would be incurred on the General Dynamics contract (which undoubtedly would result in a loss for General Dynamics on the Trident program). For example, the Associated Press newswire of November 29 made the following statement: "Admirals responsible for the Trident program, the Pentagon's biggest . . . blame the cost overrun and delay on problems encountered by the contractor, Electric Boat Division of General Dynamics Corp." The Washington Post of November 30 stated: "The 50 percent cost overrun -- from about $800 million to $1.2 billion for the first Trident under construction by Electric Boat Co. in Groton, Conn. -- involves the hull, not the missiles or nuclear power plant that go inside the 18,700-ton submarine."

This erroneous impression posed a major problem of disclosure for General Dynamics. Over the preceding many months, the company had disclosed very severe financial problems on the SSN 688-class submarines, but consistently had indicated that the Trident program would be profitable. If the impressions gained from the Navy's press conference were allowed to stand, the investment community would have had a seriously mistaken view of the profitability of General Dynamics' largest program. That erroneous impression had to be corrected, and quickly.

After the Navy press conference, General Dynamics moved in two directions. First, the company protested to the Navy that the briefing inaccurately assigned the overrun to the Electric Boat contract, which contract should have been assigned only 28 percent of the cost growth. Second, the company prepared a press release to correct the erroneous impression created by the Navy briefing and to reiterate that it still expected the Trident program to be profitable (which in fact it was and still is). The delivery date was not at issue in the protest to the Navy. However, in our press release, for the record, we noted both the company's and the Navy's estimated delivery dates.

In response to General Dynamics' request for correction, on November 30 the Navy released a Memorandum for Correspondents which accurately assigned the forecast overrun in costs to the various organizations involved in the program. In its tabulation it assigned not $400 million (as it had the day before) but $114 million to "increased cost due to estimated growth in shipbuilder's labor and material required for submarine construction." The Navy correction went on to say: "The Navy states that the contract ceiling price has not been reached for the first four TRIDENT submarines which are incorporated in a single contract. Therefore, based on current Navy estimates of shipbuilder's costs, the construction of these four ships would yield a profit for General Dynamics."

As indicated above, General Dynamics also went to work on its own press release, which correctly focused its attention on the cost overrun issue and presented the same allocation of responsibility for the overruns as was presented by the Navy in its memorandum.

With respect to the forecast dates for the Ohio delivery, the press release concluded as follows: "With regard to schedule, General Dynamics has advised the Navy that it expects the first ship to be delivered in October 1979, approximately six months after contract delivery date. The Navy believes that delivery date of April 1980 is more likely."

There were extensive internal discussions on November 29 after the company learned of the confusion generated by the Navy press conference of that date. Veliotis participated by telephone in those conversations, which were concerned with the actions required to correct the erroneous impressions of massive cost overruns attributable to Electric Boat. We have not heard tapes of all those conversations.

On November 30, after the press release was prepared, it was read to Veliotis by Frank Johnson, then General Dynamics Director of Public Affairs. As is indicated in Veliotis' tape, Veliotis agreed with everything except the last four lines which outlined the company's and the Navy's estimates of the Ohio delivery date.

It should be remembered that on November 30, 1977, Veliotis had been at Electric Boat for little more than one month. The Navy had been advised of the revision in the forecast Ohio delivery date to October 1979 on July 29, 1977, when Mr. MacDonald was serving as Acting General Manager of Electric Boat. The October 1979 delivery date was based on the best planning information available at the time and still represented the best judgment of a number of Electric Boat officials on November 30, 1977.

When Veliotis became Electric Boat General Manager on October 24, 1977, he directed that a new study of SSN-688 and Trident schedules be undertaken. In the taped conversations, Veliotis stated that his new estimate would not be completed until February 1978, which in fact it was. Veliotis advised the Navy on February 17, 1978, that the new estimated delivery date for Ohio was November 30, 1980, exactly three years after the date of the taped conversation.

I believed that it was important that our press release be sent out as quickly as possible on November 30, 1977. After the Navy and the company (including Veliotis) had agreed with respect to the principal issue -- whether the Trident program would be profitable or unprofitable for General Dynamics -- I directed that our statement be released.

I was aware that Veliotis believed that the quoted Ohio delivery dates were optimistic. However, he had no other date to recommend, and officers more familiar with the status of the program were more confident of our quoted date than was Veliotis.

Of far more importance was our conviction that the Trident profitability issue was the critical issue of disclosure, whereas an announcement that the Ohio would be delivered three years in the future rather than two and one-half years in the future was of little importance in the minds of the investing public.

Much has been made of the statement attributed to Mr. MacDonald in the Veliotis tape that, while I understood Veliotis' position with respect to the Ohio delivery date, I wanted "to go ahead anyway only to stop the stock from sliding."

It is Mr. MacDonald's clear memory that he was referring to our requirement to put out a news release to correct the very damaging impact of the Navy press conference and that we could not wait for two months while Veliotis came up with his own estimate of the Ohio delivery date. Perhaps a complete tape of their conversation, plus the conversations of the previous day, would make that clear.

* * * *

In conclusion, we remain convinced that it was incumbent on General Dynamics, in meeting its disclosure obligations to the investing public, that we release information to clear up the Trident "profit or loss" issue as quickly as was reasonably possible. We still believe that the issue of the delivery date forecast for the Ohio was of little significance to the investing public. This was borne out by the fact that when the announcement of the additional seven months delay was made by the Navy on March 17, 1978, the price of General Dynamics stock was essentially unaffected.

The following is the record of the closing prices of General Dynamics stock during that period:

Date	Closing Price General Dynamics Stock
March 15, 1978	41-1/2
March 16, 1978	41-3/4
March 17, 1978	42
(Weekend)	
March 20, 1978	42-1/4
March 21, 1978	42
March 22, 1978	41-1/2
March 23, 1978	41-1/2
March 31, 1978	43-1/2
April 7, 1978	45-3/4

We believe that the record proves the delivery schedule was a "non-event" as far as stock price was concerned.

3. ALLEGED PROVISION OF ILLEGAL GRATUITIES TO A NAVAL OFFICER IN VIOLATION OF THE SUBMARINE CONTRACTS

SUBCOMMITTEE ISSUE: General Dynamics has been accused of giving, over many years, gratuities to Admiral Rickover including two gifts of jewelry in 1977, in violation of Government contracts for the construction of submarines at the Electric Boat Division.

GENERAL DYNAMICS POSITION: The company has at no time given any illegal gratuity to Admiral Rickover. It has made gifts to him. While making gifts to him may have been ill-advised, and certainly is regretted, nothing was ever given to Admiral Rickover with an intent to obtain a contract or to secure favorable determination in the performance of a contract. Lack of this intent prevents the gifts from being illegal gratuities, which they must be for there to be violations of the government submarine contracts.

DISCUSSION: In early 1978, Veliotis, then the General Manager at Electric Boat, told me that he had information that two gifts of jewelry costing a total of $1,125 were given to Admiral Rickover for his wife in the summer of 1977. Staff members of this subcommittee told me that the same information was given to them in 1984 by Veliotis in Athens, Greece. It has been alleged that the giving of these gifts violated the gratuities clause included in the submarine contracts at Electric Boat. That clause, I understand, is included in those contracts under the federal antigratuities statutes.

Investigation by this subcommittee's staff and others has resulted in charges that additional illegal gratuities were given to Admiral Rickover over many years, primarily in two categories of substance. The first consisted of a large number of minor items that were provided to the Navy for Admiral Rickover's use during sea trials of submarines constructed at Electric Boat. The other category consisted of gifts made at ceremonial functions at Electric Boat, principally the keel layings and launchings of submarines.

Company counsel has advised me that it is a breach of the gratuities clause in General Dynamics' submarine contracts to offer or give a gratuity to an officer or employee of the United States Government to obtain a contract or to secure favorable treatment in the awarding, amending or making of determinations concerning the performance of a contract. No gift or any other thing of value, including the jewelry in 1977, was ever given to Admiral Rickover by General Dynamics with the intent that is forbidden by the gratuities clause, as described above. There is no evidence that would refute that statement. I believe this subcommittee itself announced to the press its own conclusion that Admiral Rickover did not seek favors with any intent to be improperly influenced and, further, that he never was improperly influenced. We agree with those obvious conclusions.

A very major portion of the total of alleged gratuities given to Admiral Rickover was not gifts to him at all, but involved provisions supplied by General Dynamics to the Navy for sea trials of submarines under construction at Electric Boat. The items put on board vessels for these events were of the same nature as provisions for the Admiral supplied by the Navy on sea trials departing from a Navy yard. They were for his comfort, convenience and entertainment. The provisions were requested by the Navy, identified in a list prepared by the Navy and given to Electric Boat. The list, in existence in one form or another for many years, even assumed its own identity. It was known as the "Rig for Rickover List." It was commonly known within the Navy and at Electric Boat that items on the "Rig for Rickover List" were expected to be provided by Electric Boat at the time of Electric

Boat's submarine sea trials. They were, in effect, contract extras. Any suggestion that they individually or collectively were gratuities to the Admiral, whether because he made known to the Navy the items he wanted included in the list or otherwise, is just plain wrong.

Another substantial category of alleged gratuities was the gifts given by the company in connection with ceremonies at Electric Boat, such as submarine launchings. This category, as best we can determine, represents the greatest volume of the total of gratuities alleged to have been given the Admiral. The great majority of those gifts was given to numerous persons invited to the ceremonial functions. They were not at all gifts to Admiral Rickover, but were gifts to the persons who received them. It is true that Admiral Rickover wanted gifts given at ceremonial functions. He recommended to whom they should be given. He sometimes would ask for additional quantities of certain items which were to be given to selected persons after the event. He was the person who frequently actually handed the gifts to the recipients. In no way do these facts change the obvious, that the ceremonial events were Electric Boat's affairs at which Electric Boat was the host and at which Electric Boat was the one giving the commemorative items, and, second, that the items were gifts from Electric Boat to the guests in attendance and to the persons who later received them.

A launching is a major event in the life of a vessel. The giving of gifts at launchings is a centuries old tradition. Under Navy regulations relative to receipt of gratuities by Navy personnel, the acceptance of gifts at ceremonies such as launchings was specifically recognized as permissible. Not one shred of evidence exists to suggest that any Electric Boat commemorative gift was ever an illegal gratuity with the intent proscribed by the antigratuities clause or statute.

In addition to the foregoing principal categories, a variety of items, usually of minor value, were given to Admiral Rickover over a long period of years. These items were given in response to the Admiral's requests, which usually stemmed from his eccentricities. The Admiral was a unique person in his commanding position in the Navy's nuclear propulsion program. He was difficult. He was feared, but respected. He was impossible to get along with, but he already was legendary in the years while he was still in active service.

In this context, people both respected him and did what he told them to do or asked them to do. In the desire to get along with him, it was easier to comply with his petty or idiosyncratic requests and to get on with the building of submarines than to waste time resisting those requests. The gifts of the trivial items reflected a desire to get along with the Admiral so that they could get on with the job.

With respect to the gifts of the two pieces of jewelry, in the eyes of the individual who acceded to Admiral Rickover's request for them, they were a recognition of the Admiral's complaint that others less deserving than his wife had been sponsors at ceremonial events and had received nice gifts, while Mrs. Rickover had not. The pieces of jewelry certainly were not given with any intent or expectation to influence him or corrupt him.

Again, to constitute a violation of the gratuities clause or the statute, a gratuity must have been offered or given with the intent to obtain a contract or favorable treatment in the awarding, amending, or the making of determinations concerning the performace of a contract. It is totally absurd to suggest that a gratuity was ever given to Admiral Rickover with this intent.

The gratuities clause is, in essence, an antibribery provision. It forbids a gift to be given with an intent to corrupt. The reputation of Admiral Rickover universally is that he was incorruptible. One cannot make or offer a gift to corrupt when one knows that the person to whom it is given or intended to be given cannot be corrupted. To blemish Admiral Rickover's reputation with the suggestion that he might be corrupted is a disservice to a distinguished public servant. Yet, that is what the allegations made against this company and others in fact do.

In sum, the great majority of items, in volume and value, were given in connection with sea trials and launchings. All the other items were given in response to requests from Admiral Rickover and giving them was ill-advised. Although the gifts were not charged to the Government, they have embarrassed the company, the Admiral and the Navy. It is unfortunate that the Admiral asked for things, and it is unfortunate that the company gave them to him, but there was nothing corrupt in any of it.

4. ALLEGED FALSIFICATION OF BOOKS AND RECORDS TO CONCEAL ILLEGAL GRATUITIES

SUBCOMMITTEE ISSUE: It is alleged that the company has falsified its books and records to conceal gratuities.

GENERAL DYNAMICS POSITION: This is not true.

DISCUSSION: The context of the allegation, as I understand it, is that the company's records were falsified to conceal the purchase of a pair of earrings that were given to Admiral Rickover.

I am advised that the records of Electric Boat reflect payment of a jeweler's bill for $1,284, which bill showed that the company had bought 20 retirement watches, when, in fact, the bill was for 10 retirement watches and the amount due for the jewelry.

Why the jewelry was not listed on the invoice is not clear to me. It appears that the action was taken by the jeweler and an employee to satisfy instructions that the cost of the jewelry was not to be charged to any account that could result in a billing against any Government contract. I am inclined to accept that reason; and while Electric Boat books reflect the bill submitted, at least our employee knew that the bill itself did not accurately reflect what was bought.

Even as I believe the giving of gifts to Admiral Rickover was ill-advised, I disapprove of the manner by which the billing and payment for the jewelry was made. If the direct initiative for the incorrect invoice came from a General Dynamics employee, it was a mistake. If our employee simply concurred, that too was a mistake. I am confident that this was an isolated event.

5. ALLEGED ILLEGAL GRATUITIES TO OTHER MILITARY OFFICERS

SUBCOMMITTEE ISSUE: Allegations have been made that General Dynamics employees have improperly provided military officers illegal "gratuities."

GENERAL DYNAMICS POSITION: General Dynamics' policies follow those of the Department of Defense regarding the prohibition of such activities. Executive Memorandum 75-6, dated December 15, 1975, affirmed as General Dynamics' corporate policy DoD Directive 5500.7, Standards of Conduct, which sets limitations on acceptance of gratuities by DoD personnel. On February 16, 1982, General Dynamics reaffirmed its corporate policy with Procedure 1-11. By Executive Memorandum 85-1, dated January 7, 1985, this policy was again affirmed.

DISCUSSION: I feel that it is incumbent on management to impress upon employees the importance of not placing themselves, the company or its customers in situations which might offend applicable policies. As indicated above, as recently as January 7, 1985, we issued Executive Memorandum 85-1, once again specifically directing our people not to do anything that would have given the appearance of being in violation of Department of Defense policies regarding standards of conduct.

The standards of conduct of our employees with respect to entertainment, like those of the Department of Defense, are clearly articulated. From what our people have seen of documents supplied to the staff of this committee, it appears that our entertainment policies have not been adhered to as well as we would wish. We are looking into this situation further to determine what improvements can be made.

6. ALLEGED LACK OF DOCUMENTATION INVOLVING MILLIONS OF DOLLARS OF EXPENSE VOUCHERS

SUBCOMMITTEE ISSUE: Allegations have been made that General Dynamics employees have submitted millions of dollars in "undocumented" expense vouchers and that the Government has been asked to reimburse the company for their costs.

GENERAL DYNAMICS POSITION: Our vouchers are documented to the extent required by Government acquisition regulations. The Government has been asked to reimburse the cost of only those properly allocable to the cost of Government business.

DISCUSSION: The regulations which govern cost principles included in Government contracts specifically provide for the allowability of expenses of meetings and conferences when the primary purpose is the dissemination of technical information or stimulation of production. Those regulations and cost principles do not require that business conference expense vouchers contain the names and affiliations of participants, the location and duration of events, agenda of items discussed, or the like.

For an employee to be reimbursed by General Dynamics for business conference or other expenses, he must document (by receipt if the amount is $25 or more) the amount spent, the purpose of the business conference and the number of persons involved. This permits the determination of reasonableness and allocability under the Defense Acquisition Regulations (DAR) and the Federal Acquisition Regulations (FAR).

It should be noted that the DAR and FAR requirements for documentation are virtually identical with the reporting rules of the Federal Regulation of Lobbying Act.

For business conferences, the regulations clearly require that for costs of business conferences to be considered for reimbursement, they must be reasonable and allocable. Reasonable is defined as a cost which, in its nature and amount, is not in excess of that which would be incurred by an ordinarily prudent businessman in a competitive business. Allocable means that a cost is (1) incurred specifically for the contract, or (2) benefits both Government and other work and can be distributed in reasonable proportion to those benefits, or (3) is necessary to the overall operation of the business.

The allowability of business conference expense is clear. But it is important that this legitimate account not be used to cover entertainment costs, which clearly are not allowable under Government contracts.

A great deal of publicity has emanated from the use and release by this subcommittee of material from Defense Contract Audit Agency (DCAA) reports and work papers which may or may not have questioned a number of costs proposed by General Dynamics to be included in its allowable overhead accounts.

At no time has it been made clear that a DCAA-questioned cost is just that. It is a questioned item, since the DCAA does not have power of decision on the matters it audits.

All defense contracts provide for negotiation of overhead costs when disagreements between the Government and the contractor arise. The DCAA has access to the contractor's records and after studying them issues audit reports which become "advisory documents" for use by Government negotiators in establishing the Government's negotiating position. To repeat, contrary to recent perceptions, the DCAA has no authority to disallow costs. While the DCAA may recommend specific action, the Administrative Contracting Officer (ACO) has the ultimate responsibility to review the facts, develop a negotiating position and finally negotiate and settle with a contractor on the contents of the allowable overhead account.

After audit reports raise questions, fact-finding and negotiation take place. The ACO relies on all or part of a DCAA report. The contractor is often asked to supply additional supporting documentation that may not normally be provided as part of the routine auditing process. The contractor also has the opportunity to point out erroneous conclusions or misinterpretations and misapplications of the DAR or FAR or other contract terms. Additionally, the contractor can take exception to those parts of a DCAA audit report with which he disagrees and can provide supporting documentation to the contracting officer for his consideration.

Confirmation of the advisory nature of the audit reports is founded not only in Armed Services Board of Appeals cases, but also in the DARs and FARs. It is important to note that in prior years the Administrative Contracting Officer has been able to sustain only a small fraction of the costs questioned in DCAA audit reports on General Dynamics. In short, General Dynamics has submitted costs which, by and large, have been considered reasonable and allowable as parts of its overhead account.

Having clearly supported through the years our position that it is General Dynamics' intention to claim only costs that are allowable, allocable and reasonable, we still make mistakes. There is no doubt that we have submitted in our overhead cost proposals items that DCAA will question and that the ACO may ultimately disallow. Sometimes this occurs because the individual incurring the expense may have inadvertently labeled the expense improperly or may have failed to provide sufficient information for the company's accountant to place the expense in the proper account.

In the negotiation process, when those costs are questioned and additional information is requested by the Government, General Dynamics negotiators dig deeper into the case. When it becomes apparent that the costs of certain items should not have been claimed in the first place, those costs are withdrawn. In cases where the account appears to be correct, we stand our ground. In our opinion, the number of items that have been submitted and then withdrawn, or that have been submitted and lost in negotiations, represents a very small percentage of the total overhead account.

There have been instances when "business conference expenses" should have been labeled "entertainment." When those cases are discovered, we correct them. Sometimes we find them prior to the submission of our proposal to the ACO and there are other times when the incorrect charge is recognized during the process of negotiation. Never is it our intention consciously to misrepresent any request for reimbursement of costs incurred.

7. ALLEGED MISUSE OF CORPORATE AIRCRAFT AND REPORTING OF PERQUISITES

SUBCOMMITTEE ISSUE: The subcommittee is concerned that General Dynamics and I, personally, have used corporate aircraft for nonbusiness purposes and that the costs for that use have been submitted to the Government for reimbursement.

GENERAL DYNAMICS POSITION: General Dynamics believes that its use of corporate aircraft represents an efficient and effective use of an important productivity and security tool. While the company maintains that all flights were properly operated in accordance with standard practices in the United States, there have been a number of flights which have been challenged by Government auditors as being inappropriate for charge against Government contracts.

In view of the enormous and exaggerated publicity given to this issue by the news media, with attendant damage to the reputation of this company, we have withdrawn our requests for reimbursement from the Government for the costs of all flights that could conceivably be construed as not being directly applicable to General Dynamics' programs and contract activities.

DISCUSSION: The use of corporate aircraft in the administration of Government contracts is probably the most misunderstood subject scheduled for this hearing. The subcommittee has made extensive examinations of flight records and charges proposed to the Government for reimbursement for the cost of operating the aircraft assigned to the corporate office of General Dynamics.

Corporate office personnel are required frequently to visit divisional operations in 21 locations in the United States, some with little or no commercial air transport service. In addition, it is necessary that periodic and frequent visits be made to many other locations where the company has significant business to be carried out with Government officials, associate contractors and subcontractors concerned with contracts held by General Dynamics. The use of corporate aircraft to provide flexibility of travel is extremely important to the operations of General Dynamics and therefore to its Government customers.

There is no question whatsoever that the use of modern aircraft provides an effective and efficient means for Corporate Office and division personnel to administer contracts. This is consistent with the extensive use of similar aircraft by Defense Department personnel in their administration of Government contracts and other Government purposes. There is little controversy with respect to the reimbursement of the costs for the use of corporate aircraft when it is crystal clear that a trip is directly concerned with particular business and contract activities.

A second category consists of the use of corporate aircraft for important direct business purposes of a more general nature, for example to provide travel to important business organization meetings and conferences and to meetings of other companies' Boards of Directors. We consider those to be very appropriate costs of doing business in the United States.

The third category is the use of corporate aircraft for executive security, which is an important consideration at General Dynamics and at many other companies. There are companies like ours with similar executive security exposure problems who have established policies that prohibit key executives from flying commercial aircraft; instead, the companies provide corporate aircraft to insure personal protection for the executives. General Dynamics has a similar policy.

The Executive Committee of our Board of Directors has followed these issues through the years and has directed that I, as Chief Executive Officer, use corporate aircraft for travel of all kinds whenever reasonably possible.

With respect to General Dynamics, it should be recognized that for the past decade it has been one of the largest contractors to the Department of Defense and, equally important, that it has had responsibility for a number of vitally important but extremely controversial weapons programs. Among these are Trident ballistic missile submarines, Tomahawk nuclear warhead cruise missiles and the F-16 fighter-bomber aircraft which have been used by the Israeli Air Force with devastating effect in actions against the Iraqi nuclear installation and in the war against Syria.

Over the past several years, our company has been plagued with overt actions against it by various groups representing points of view different from our Government's, including those who are belligerently antinuclear or antidefense. Since 1975, there have been 584 demonstrations at various General Dynamics facilities, including 187 at our Corporate Office in St. Louis and a break-in at our office in Brussels, Belgium. There have been 103 bomb threats against the company, one of which was carried out by the placement of an explosive device which was deactivated at one of our facilities, as well as five imitations at other times. My home has been picketed and I have received anonymous threatening phone calls and letters.

Most of the demonstrations have been peaceful, but some certainly have not been. We continue to be concerned that extremely militant factions or representatives of known terrorist groups could infiltrate and associate themselves with well-meaning, nonviolent groups of protestors.

Periodically, we have been informed by the FBI and by other intelligence and security organizations of potential terrorist activities against U.S. industry.

In 1978, our company had a professional security organization make an analysis of the provisions taken by our company for security of our people and facilities. That organization concluded that the security arrangements provided for General Dynamics' employees and executives rated last in a group of eleven companies involved in similar lines of business. Since that time, we have made extensive improvements to provide individual security protection through the use of secure mobile radio communication systems, through the use of armored automobiles, and by adding physical barriers to protect Government and corporate property and personnel. We consider security to be a major priority in our company.

In consonance with these overall provisions, I have used corporate aircraft to attend meetings of other companies' Boards of Directors of which I am a member and to attend business conferences, such as those of the Business Roundtable, the Aerospace Industries Association of America, and similar organizations.

I have also used corporate aircraft from time to time for transportation to my farm in Albany, Georgia, and occasionally to other places where no specific business purpose could be attributed. It is my view that as Chief Executive Officer I am on call wherever I am, and it is rare that a business day goes by when I am not in direct communication with the Corporate Office or some of the divisions of General Dynamics. However, the use of the aircraft for those purposes is primarily to provide suitable personal security.

My use of the corporate aircraft in cases where no specific business purpose can be attributed has been challenged by this subcommittee and by Government auditors. The amount of that use has been greatly exaggerated, and I believe it is important that the facts be presented in order finally to place this issue in the correct perspective.

For the period under review, 1978-1983, the aircraft assigned to the Corporate Office have provided 21,388 passenger hours of service. My use of the aircraft for all purposes represented 1,354 passenger hours or 6.3 percent of the total. During that six-year period, all of the flights which the company has excluded from our requests for reimbursement as not being directly concerned with the business activities of General Dynamics amounted to 1,950 passenger hours for all General Dynamics personnel, 9.1 percent of the total. During that six-year period, the Government has questioned a number of the flights included in the second and third categories mentioned above.

In the years 1978 through 1983, the company withdrew $429,970 of costs of flights in those categories. As a result of the wide publicity given to our aircraft operation, in January of this year we withdrew an additional $491,840 to cover additional flights in those same categories. Included were flights to other companies' Boards of Directors meetings and all flights to all places where no specific business purpose could be attributed. We made those concessions, which add up to $921,810, even though we remain convinced that the majority of those flights conceded by the company should be legitimate charges against Government contracts.

There has been a great deal of public interest generated about my use of corporate aircraft for security purposes on flights to and from my farm in Georgia and to other places where no specific business purposes could be attributed. During the same six-year period, I made 74 of these flights requiring 122 hours of flight time for those purposes. This represents 6/10 of 1 percent of the corporate aircraft passenger operations over that period and the cost of those 74 flights was $105,176, which is included in the $921,810 mentioned above. This was an average cost of $17,529 per year. This accurate figure is obviously a small percentage of the costs that I have seen stated in any of the reports that I have seen carried on this subject in the news media.

PERQUISITES

There is an associated issue involved with respect to the "personal use of corporate aircraft" which relates to perquisites (or personal benefits) received by an executive and the reporting of those in the company's proxy statement.

In the years 1978 through 1983, I did not reimburse the company for the use of corporate aircraft where no specific business purpose could be attributed. In those years, on the premise that the aircraft use served a business purpose, the value of the use included in the calculations of my compensation, with two minor exceptions, was based on the cost of first class commercial airline fare. In no year did the total values of all perquisites received by me exceed the $25,000 annual threshold requiring detailed disclosure set by the SEC.

In 1984, I paid the company the cost of first class commercial airline tickets in anticipation of new tax rules covering fringe benefits. Again, the perquisites received by me will not meet the $25,000 threshold requiring detailed disclosure set by the SEC.

8. POSSIBLE FRAUDULENT CHARGES AGAINST THE GOVERNMENT

SUBCOMMITTEE ISSUE: It has been alleged that the records of nonreimbursable personal flights aboard corporate aircraft have been altered to appear as reimbursable training flights. This is the only specific allegation of which we are aware.

GENERAL DYNAMICS POSITION: We know of no claims submitted by General Dynamics for reimbursement by the Government that are fraudulent.

DISCUSSION: The only example the company is aware of in connection with the subcommittee's investigation is the purported "alteration" of flight records, which was neither fraudulent nor improper in any way. In fact it was an effort by our flight department to establish that it had fulfilled the company's training requirements during flights that were made for other purposes. By doing so, the company and the Government were spared the expense of special flights made solely for training.

This matter refers to a code by which our flight department records the types of corporate aircraft trips. An "E" denotes executive travel, a "P" denotes a positioning flight (i.e., a flight without passengers to a destination where passengers are to be picked up and flown to other locations), and a "T" denotes a training flight. All of these categories can be allowable for reimbursement under Government contracts, depending on the purpose of the flight.

During the 1978-1983 period under review, there were 3,444 flights by corporate aircraft. Of that number, we know of only six cases where changes to the records were made, and these were by writing a "T" (for "training") over the original "E" (for "executive travel"). In four of these instances, the flights have been excluded from the company's proposals for the negotiation of overhead costs of aircraft. The two that are included, at a cost of $3,248, were unquestionably chargeable to overhead because they were categorized as return flights of the aircraft from trips directly concerned with General Dynamics business.

It is important to note that the record changes were made on "flight logs" which are internal records kept by flight operations personnel to record aircraft information such as flight hours, miles flown, aircraft weight, fuel usage and number of passengers, as well as pilot information such as which crew member was in command, the type of landing, the currency of instrument flight proficiency, and an E or P or T denoting the category of flight. These flight logs are not used in negotiations for reimbursement of overhead costs. They are used primarily to collect and maintain aircraft and flight crew statistical data, including pilot proficiency training, when designated with the "T" marking.

Information from those logs is summarized at the end of each month in a "trip log" which also contains the name of the principal passenger and the purpose of the trip as well as other data. It is the trip log which is used in the negotiations for reimbursement of aircraft costs, so that even if a flight is designated "T" for training it shows the name of the principal passenger and the destination, which are clearly visible to any auditor.

The manager of the Flight Department, who made the revisions of the flight logs, has informed me that he did so for one reason only -- to satisfy his superiors that the required number of flights to maintain pilot proficiency, as required by the company and by the Federal Aviation Administration, had been met in the months involved. As a matter of fact, at least four of the flights should have been marked "T" in the first place since they did not have passengers and training activities were planned in advance.

Reimbursability was not an issue in those changes. The Government was not asked, as a result of those changes, to reimburse the costs of flights that were not otherwise chargeable. Rather than being fraudulent, the changes of flight categories were a method used by flight operations personnel to cut down on the number of special training flights and thus save money for both the company and the Government.

# # #

Mr. **Wyden** [presiding]. Thank you very much, Mr. Lewis. I would like to explore the Lester Crown affair to begin with.

We have received a letter from the Department of Defense that raises some very serious questions about this matter. Mr. Crown has, as you know, the top secret clearance. General Dynamics was aware of adverse information about Mr. Crown but did not tell the Department of Defense, according to the Department. In fact, the Department believes that there was a violation of a contractual obligation with the Department of Defense by not reporting this derogatory information.

Now, I could go on, but clearly, the Department of Defense considers Crown's past actions to be extremely serious. And I would like to ask you some questions about the affair. In fact, let me, if I might, quote directly from the material that we have received from the Department of Defense.

We received this on February 27. It says, and I quote here, "Although Mr. Crown's clearances remain in effect, his reported past misconduct is serious and closely related to the issue of his trustworthiness." And they are required by law to offer him certain due process procedures including a hearing on this matter, and they are directing that such processes be initiated immediately.

[The correspondence referred to follows:]

Congress of the United States
House of Representatives
Committee on Energy and Commerce
Room 2125, Rayburn House Office Building
Washington, D.C. 20515

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

February 7, 1985

The Honorable Caspar W. Weinberger
Secretary of Defense
Department of Defense
The Pentagon
Washington, D. C. 20301

Dear Mr. Secretary:

During the 98th Congress, the Subcommittee on Oversight and Investigations began a legislative oversight investigation of matters pertaining to the General Dynamics Corporation. It is anticipated that this investigation will continue during the 99th Congress. Of particular concern to the Subcommittee has been evidence that General Dynamics may have violated laws and regulations under the responsibility of the Securities and Exchange Commission (SEC). These include matters of management integrity and certain reporting requirements by the Corporation to its shareholders. The SEC is currently conducting its own investigation into General Dynamics.

The following information has been extracted from a July 6, 1977 SEC report of an investigation of Lester Crown and the General Dynamics Corporation: In October 1972, Lester Crown contributed $15,000 of his personal funds to bribe selected Illinois State legislators for which the State legislators were later indicted and convicted. In 1973, Lester Crown directed various officers of a General Dynamics wholly-owned subsidiary, Material Services Corporation, to falsify expense reports of the Corporation in a scheme to reimburse Crown for his personal funds used in the bribes. In June 1973, the subsidiary was subpoenaed by a Federal grand jury to produce corporate records and an officer to testify before the grand jury. In August 1973, the United States Government entered into immunity agreements under the terms of which it agreed not to prosecute General Dyanmics, Material Services Corporation, or their respective officers, directors, and employees in return for full cooperation in the investigation.

On June 1, 1973, General Dynamics' outside counsel, Albert Jenner, learned of the bribery scheme; Jenner conducted an investigation of the bribery scheme and the falsification of the expense accounts. On August 17, 1973, Jenner informed David S. Lewis, Chairman of the Board of General Dynamics, of the results of his investigation. On November 6, 1973, Jenner told the General Dynamics' Executive Committee of the grand jury subpoena and the bribery scheme -- and, according to testimony taken by the SEC, he may not have told the Executive Committee about Lester Crown's role in the bribery scheme or the falsification of the expense reports -- minutes of the meeting do not reflect any disclosure.

On March 24, 1974, David S. Lewis formally nominated Lester Crown as a Director of General Dynamics Corporation by issuing a proxy statement which made no reference to the bribery or falsification of expense accounts; Crown was later elected to the Board of Directors in May 1974.

Recently, the Department of Defense advised the Subcommittee that General Dynamics had requested a Top Secret security clearance for Lester Crown in the spring of 1974. In fact, on July 31, 1974, in the midst of the grand jury investigation, the Department of Defense granted Lester Crown a Top Secret security clearance.

On December 4, 1974, indictments were returned in the United States District Court for the Northern District of Illinois; Lester Crown and four present and former employees of the General Dynamics subsidiary were named in the indictment as unindicted co-conspirators.

At the December 5, 1974 General Dynamics Board of Directors meeting, the full Board, for the first time, was told about the grand jury subpoena. This was 18 months after Jenner and Lewis learned of the bribery scheme. Jenner summarized the indictment, which had been handed down the day before, and told the Board that Lester Crown and other employees of the General Dynamics subsidiary had been named as unindicted co-conspirators. There was no mention of the falsification of expense accounts.

It was not until the August 2, 1976 Executive Committee meeting and the September 2, 1976 Board of Directors meeting (over three years after Jenner and Lewis learned of the bribery scheme), that all of the Directors were told of the full extent of Lester Crown's involvement in the bribery and falsification of expense reports.

Bribery is a major felony involving serious moral turpitude. The election to, and the retention on, the Board of Directors of an individual who admittedly was actively involved in the commission of a major crime is a statement of the integrity of the management of our nation's largest defense contractor. Questions of possible criminal conduct and dishonesty should be matters of extreme concern to the Department of Defense in determining an individual's eligibility for a security clearance.

The Department of Defense granted Lester Crown a Top Secret security clearance on July 31, 1974, in the middle of a grand jury investigation of his activities involving bribery and falsification of corporate records. This certainly raises some important questions. Did Lester Crown and the General Dynamics Corporation report this adverse information on official forms applying for the security clearance? Did Lester Crown and General Dynamics officers describe fully and accurately Lester Crown's role in the bribery scheme and the falsification of the expense reports to Department of Defense investigators? Did the Department of Defense properly evaluate Lester Crown's security clearance case?

Lester Crown, by virtue of his position and high level clearance, presumably has access to extremely sensitive information affecting the national security. After all, General Dynamics produces the major weapons systems for each of the three Armed Services: the M-1 Tank for the Army, the F-16 Fighter Aircraft for the Air Force, and the TRIDENT and 688 Class Attack Submarines and the Tomahawk Cruise Missile for the Navy. It would follow that Lester Crown probably has regular access to intelligence, nuclear weapons, nuclear propulsion, and other particularly sensitive data.

We would appreciate being advised of the security clearances, including special access and intelligence, that have been granted to Lester Crown by the U. S. Government. In addition, because of the Subcommittee's interest in determining whether the Corporation and its officers may have been derelict in their reporting requirements, we request that Lester Crown's security files be made available for review by the Subcommittee staff.

If you have any questions regarding this request, please contact Michael Barrett or Peter Stockton of the Subcommittee staff at 225-4441.

Thank you for your cooperation in this matter.

Sincerely,

John D. Dingell

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

BEST COPY AVAILABLE

THE SECRETARY OF DEFENSE
WASHINGTON THE DISTRICT OF COLUMBIA

27 FEB 1985

Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your letter of February 7, 1985, which provided information extracted from a 1977 Securities and Exchange Commission (SEC) report of investigation on Lester Crown and the General Dynamics Corporation (GD).

We have been advised by the Defense Investigative Service (DIS), which conducts background investigations for DoD, including defense contractors, that the investigation conducted into Mr. Crown's background to determine his eligibility for a Top Secret security clearance, which was granted on July 31, 1974, did not include any reference to the adverse information contained in the SEC report of investigation which you mention in your letter. Indeed, until your letter arrived, we were unaware of any SEC report of investigation having been prepared on Mr. Crown.

It is evident, however, from the information in the report, that GD management officials were aware of the adverse information existing on Mr. Crown. GD had a contractual obligation, as a defense contractor participating in the Defense Industrial Security Program, to comply with the provisions of the DoD Industrial Security Manual (DoD 5220.22-M), which requires all participating defense contractors to submit reports of any information coming to their attention concerning any of their employees already cleared or in the process of being cleared which indicates that their access to classified information may not be clearly consistent with the national interest. This requirement has existed since 1954, and has continued to exist over the years to the present.

Indeed, from our records, it appears that DoD was never advised either by GD, or, for that matter, by other Executive branch agencies involved, of either the grand jury proceeding in July, 1973, or the fact that in December, 1974, Mr. Crown and others were named as unindicted co-conspirators in a report of a federal grand jury. Had we been so advised, this information would have caused Mr. Crown's security status to be reevaluated, under applicable DoD policies.

It was not until April, 1982, that DoD became aware from Mr. Crown himself, who was applying for a concurrent SECRET clearance in his capacity as an officer of Trans World Airlines, Inc., that a civil action had previously been filed by the SEC against Crown and GD in 1977, to enjoin them from undertaking certain actions in the future (e.g., omitting material facts from statements to stockholders, making false entries in the records of a subsidiary). On the basis of this admission, the Defense Investigative Service obtained a complete docketed file on the civil case from the United States District Court, Northern District of Illinois, Eastern Division, and determined as a result of the civil proceeding, that GD and Mr. Crown had entered into a consent agreement with the Government which would enjoin them from undertaking in the future the actions complained of by the SEC.

After reviewing this record, and on the basis of the relevant facts known to it at the time, the Defense Industrial Security Clearance Review Office (DISCO), which processes requests for clearances of DoD contractors, concluded in February, 1983, that Mr. Crown's clearances should be continued. This determination was presumably influenced by the fact that the 1977 court action involving Mr. Crown was civil in nature, had resulted in a consent agreement with the Government, and had involved conduct that had occurred nine to eleven years earlier.

Although Mr. Crown's clearances remain in effect, his reported past misconduct is serious and closely related to the issue of his trustworthiness. Before action can be taken on the basis of these reports to revoke Mr. Crown's security clearance, we are required by law to offer to him certain due process procedures, to include a hearing. I am directing that such process be initiated immediately.

I have also tasked Defense Investigative Service to ascertain from the management of GD why the company failed to report the information regarding Mr. Crown as they were required to do, and to recommend what if any actions with respect to the company may be appropriate at this point.

Your letter also asked us to indicate what other government clearances Mr. Crown may have possessed in the past. We have ascertained that Mr. Crown was previously granted a Top Secret personnel security clearance on July 23, 1962 with respect to a position as Vice President with GD in New York. This clearance was administratively terminated in 1966. We have no record of any other clearance that may have been granted him in the past, nor have we been able to ascertain whether he may have been processed for any kind of special access authorization. He is not, in any case, currently listed as having such access.

There have been improvements made to the Defense Industrial Security Program since 1974 that hopefully will enable us to learn of such cases in the future. For example, DIS instituted a requirement in 1981 for an in-depth interview of the subject of a background investigation. Such interviews focus in large part upon past activities that may have involved criminal conduct or moral turpitude. DIS also repeatedly stresses the requirement to corporate officials and security officers to report unfavorable information concerning employees that may have a bearing on their clearances, and DIS inspectors review this procedure as an integral part of their program oversight.

With regard to the investigative files on Mr. Crown you asked be provided the Committee, I understand that separate arrangements have been made for committee staff to review the files in our possession.

We trust this information is responsive to your request. Please be assured of our continued cooperation in meeting the Committee's needs with regard to this matter.

Sincerely,

Mr. Wyder. They are also investigating at the Department why General Dynamics did not ever report this derogatory information. And so what I would like to do is pose a few questions to you beginning with June 1, 1973, when your outside counsel, a member of the board of directors, Mr. Jenner, learned of the bribery scheme and conducted an investigation of the bribery scheme and the falsification of expense accounts.

Now apparently, Mr. Jenner did not inform you of the bribery scheme or the falsification of records until August 17, 1973. During this time, Mr. Jenner apparently was arranging an immunity agreement with the U.S. Attorney without your knowledge.

My first question to you: Wasn't your corporation a victim of Mr. Crown's embezzlement of funds to get his money back from the bribes?

Mr. Lewis. I do not believe that we are the victim of embezzlement. No. Mr. Crown paid that from his personal funds and the corporate funds were paid back by him to the company.

Mr. Wyden. Then he falsified the documents of the company to get paid back.

Mr. Lewis. I have not seen any of those documents.

Mr. Wyden. He was reimbursed for such.

Mr. Lewis. He was not reimbursed in the final analysis. No.

Mr. Wyden. Because he paid it back after he got caught.

Mr. Lewis. I'm not sure that that is the correct way of defining that.

Mr. Wyden. How would you define it? He paid it back after this scheme—in fact, I think really a plan—to take advantage of the corporation came to light. How else would you describe it?

Mr. Lewis. Mr. Crown had an excellent reputation. His performance prior to that time was without any aberration whatsoever. When the events came to my attention the issue was closed—had been completed, I should say. I was unable to transmit this information due to an agreement between Mr. Jenner and the Justice Department prosecutor on the case. And the issue, the payments had been reversed and paid back to the company.

Mr. Wyden. After he was caught bribing people. There is no other explanation for it.

And I would like to know what authority Mr. Jenner had to cut a deal on behalf of the company without your knowledge. I mean, isn't this withholding of material information from the CEO?

Mr. Lewis. This arrangement, discussion that he had with the Justice Department is privileged to me, but as far as I understand, it is with respect to Mr. Crown personally.

Mr. Wyden. Do you think bribery is a crime involving moral turpitude?

Mr. Lewis. Well, I am not proposed to comment with respect to legal definitions. I certainly know bribery is a crime.

Mr. Wyden. Is it moral, is it immoral, is it right? Your corporation was a victim of this, and yet you always seem to find someone else to pass the blame off on.

Mr. Lewis. I am not passing the blame to anyone. Mr. Crown made a mistake and corrected it.

Mr. Wyden. After he was caught making a bribe, which you seem to think is just a bookkeeping matter.

Mr. **Lewis**. I did not consider it a bookkeeping matter.

Mr. **Wyden**. According to the SEC report, you and Jenner and possibly Mr. Lynn, the general counsel, withheld the information about Mr. Crown's role in the bribery scheme from the board of directors. Wasn't your obligation as CEO to tell them?

Mr. **Lewis**. If you remember, I just covered that issue very carefully. We were told directly by Mr. Jenner that only Mr. Lynn, general counsel of the company, and I were to be told this, given this information, and that we were not to release it.

Mr. **Wyden**. Who told you the information?

Mr. **Lewis**. Mr. Jenner.

Mr. **Wyden**. And where did he get it?

Mr. **Lewis**. Mr. Jenner advised me that he had been told by the Federal attorney on the case that he would be allowed to advise me and counsel for the company only. We were under that limitation.

Mr. **Wyden**. The Federal prosecutors deny that. Are you aware of that?

Mr. **Lewis**. No; I am not aware of that.

Mr. **Wyden**. It is in the SEC file.

Mr. **Lewis**. He denied what?

I don't have access to the SEC file. Perhaps if you have it there, I would like very much to see it. But I am certainly not aware of——

Mr. **Wyden**. They never told Jenner not to tell anyone about it.

Mr. **Lewis**. Is that your statement or——

Mr. **Wyden**. It is in the SEC files. That is a statement from the Federal prosecutors, Mr. Lewis.

Mr. **Lewis**. I have never heard that before.

[Testimony resumes on p. 69.]

[The file referred to follows:]

RECEIVED
JUN 3 1977
Branch of Regional Office [illegible]

Enforcement has reviewed and concurs with the Regional Office Recommendation

______________________19____

FILE NO.: C-2110
DATE: May 31, 1977
approved 7/6/77

MEMORANDUM

TO : Division of Enforcement

FROM : Chicago Regional Office

SUBJECT : General Dynamics Corporation
Lester Crown

RECOMMENDATION : That the Chicago Regional Office be authorized to commence an action, pursuant to Section 21(d) of the Securities Exchange Act of 1934, in the United States District Court for the Northern District of Illinois seeking preliminary and permanent injunctions against General Dynamics Corporation and Lester Crown for violations of Section 14(a) of the Securities Exchange Act of 1934 (1934 Act) and Rule 14a-9 thereunder.

ACTION REQUESTED BY :

NOVEL, UNIQUE OR COMPLEX ISSUES :

OTHER DIVISIONS OR OFFICES CONSULTED : Division of Corporation Finance

I. Parties Involved

General Dynamics Corporation (General Dynamics), a Delaware corporation with its principal office located in St. Louis, Missouri, is primarily engaged in the manufacture of aircraft, building supplies and telecommunications' equipment. Its common stock is registered pursuant to Section 12(g) of the 1934 Act, as amended, and is traded on the New York Stock Exchange, Midwest Stock Exchange, Pacific Coast Stock Exchange and Montreal Stock Exchange.

Material Service Corporation (Material Service), with its principal office located in Chicago, Illinois, is a wholly owned subsidiary of General Dynamics. It is primarily engaged in the manufacturing of building supplies. 1/

Lester Crown (Crown) has been President of Material Service and a director of General Dynamics since 1970 and 1974, respectively. 2/ In addition, he has been a director of Esmark, Inc. and Trans World Airlines (TWA) since 1968 and 1967, respectively. Crown was also a director of Continental Illinois Corporation from 1963 to 1975. 3/

II. The Bribery Scheme

In May, 1972 Crown provided $8,000 of his personal funds as Material Service's share of a $50,000 fund being assembled by numerous Illinois ready-mix concrete companies to be distributed to members of the Illinois General Assembly to obtain passage of a concrete ready-mix truck weight bill pending in the Illinois General Assembly. The Bill passed both houses of the General Assembly in late June, 1972. However, Illinois Governor Richard B. Ogilvie vetoed the Bill on August 4, 1972. It was the ready-mix concrete companies' understanding that the monies were to be distributed to the legislators only if the Governor signed the bill into law. Consequently, when the bill was vetoed the $50,000, including the contribution of $8,000 of personal funds made by Crown, were returned to each of the respective contributors. However, the legislators were of the belief that their only obligation was to obtain passage by the General Assembly, which in fact occurred. Therefore, in October, 1972 in order to appease the legislators, $30,000 was delivered to certain members of the Illinois General Assembly. The $30,000 consisted of a $15,000 contribution by Crown, from his personal funds, which in turn was matched by another concrete ready-mix supplier. On December 4, 1974 various of said legislators were indicted by a Federal Grand Jury for accepting bribes with respect to the passage of the legislation.

1/ On February 28, 1977 the Grand Jury for the Northern District of Illinois returned an indictment naming Material Service, its senior vice president and five other defendants alleging violations of the Sherman Antitrust Act [15 U.S.C. Section 1] and ten counts of mail fraud in a scheme to rig bids for a construction contract. [18 U.S.C. Section 1341]. United States of America v. Allied Asphalt Paving Co., et al. 77 CR 191. Lester Crown is not named in the indictment.

2/ The Crown family owns approximately 14% of the outstanding common stock of General Dynamics.

3/ The common stocks of Esmark, Inc. TWA and Continental Illinois Corporation are registered pursuant to Section 12(g) of the 1934 Act.

During the period commencing in June or July, 1972 and ending in June, 1973 seven officers and employees of Material Service Corporation, at the direction of Crown, prepared and submitted, and received payment of, expense account vouchers which included certain fictitious expenses. This was done pursuant to a plan to reimburse Crown for the all the personal funds advanced by him, as set forth above. The cash received by those individuals on account of the ficititious expenses, aggregating $7,600 by June, 1973, was given to Crown. On August 30, 1973, after senior management of General Dynamics learned of the foregoing facts, Crown repaid Material Service the $7,600 he had received.

On June 1, 1973 Material Service was subpoenaed by the Federal Grand Jury to produce corporate records and an officer to testify before the Grand Jury. In August, 1973 the United States Government entered into immunity agreements under the terms of which it agreed not to prosecute General Dynamics, Material Service or their respective officers, directors and employees in return for their full cooperation in the investigation.

As noted above, on December 4, 1974 indictments were returned in the United States District Court for the Northern District of Illinois in the cases of United States of America v. Robert Craig, et al., 74 CR 879 and 75 CR 202. Crown and four present or former employees of Material Service were named in the indictment as unindicted co-conspirators. Neither General Dynamics nor Material Service were named in the indictment.

Trial took place in 1976 and on June 25, 1976 the jury found three present and two former Illinois legislators and another defendant guilty with respect to various counts in the indictment. Subsequently, the presiding District Judge entered a directed verdict in favor of one of the present legislators who had been found guilty by the jury.

III. Knowledge of the Facts

On June 1, 1973 Arnold Sobel, Executive Vice President of Material Service, notified Albert E. Jenner (Jenner) of the Grand Jury subpoena and its subject matter. 4/ This was the first time Jenner learned of the bribery scheme and Material Service's role therein. After discussing the subject matter of the subpoena with Sobel, Jenner and several members of his law firm undertook an investigation to ascertain the extent of Material Service's involvement.

4/ Jenner has been a director and member of the Executive Committee of General Dynamics since May, 1970. In addition, since May, 1970 the Chicago law firm of Jenner & Block, in which Jenner is the senior partner, has been retained as outside counsel to General Dynamics.

Between on or about June 1, and August 13, 1973 they questioned all employees of Material Service who were even remotely involved in the aforementioned bribery and the falsification of expense accounts. By the end of August, Jenner was aware of the facts and circumstances surrounding the bribery and falsification of expense accounts. On or about August 17, 1973 Jenner informed David S. Lewis (Lewis), President and Chairman of the Board of General Dynamics, of the Grand Jury subpoena and the facts uncovered during his investigation. 5/

At the November 6, 1973 General Dynamics Executive Committee meeting, Jenner for the first time informed the other members of the committee of the Grand Jury subpoena. 6/ Jenner told them the subject matter of the Grand Jury investigation and that Material Service and certain of its personnel were granted immunity. The testimony from the members of the Executive Committee is conflicting as to whether they were told of Crown's involvement in the bribery and falsification of expense reports. In addition, the minutes of the meeting, as well as the secretary's notes, do not indicate whether his involvement was disclosed.

At the December 5, 1974 General Dynamics board of directors meeting, the full board for the first time was told about the Grand Jury subpoena. Jenner summarized the indictment, which had been handed down the day before, and told them that Crown and other employees of Material Service had been named as unindicted co-conspirators. There was no mention of the falsification of expense accounts. It was not until the August 2, 1976 Executive Committee meeting and the September 2, 1976 board of directors meeting that all of the directors were told of the full extent of Crown's and Material Service's involvement in the bribery and the falsification of expense reports.

IV. Nomination of Crown as a Director of General Dynamics

According to Lewis, he makes the determination in the first instance as to who should be nominated as a director of General Dynamics. The list of nominees is then presented to the executive committee and the board of directors prior to their inclusion in the proxy materials. In 1974 Lewis determined to nominate Lester Crown as a director. He based his decision on the following considerations: the advanced age of Henry Crown (Lester's father), the sizable ownership interest of the Crown family and the fact that Lester Crown was president of Material Service. Lewis testified that Lester Crown's involvement in the bribery and falsification of expense accounts was outweighed by the overall benefit to the corporation of Crown's directorship.

5/ Within a week of learning of the Grand Jury subpoena, Jenner informed Edward Lynn, vice president and general counsel to General Dynamics, of its existence. Throughout the investigation Jenner kept Lynn informed.

6/ In addition to Jenner and Lewis, Henry Crown, Nathan Cummings and Robert W. Reneker were members of the Executive Committee at that time. All were present at the November 6 meeting.

The March 28, 1974 General Dynamics proxy statement (in which Lester Crown was nominated as a director) did not make any reference to the bribery or falsification of expense accounts. 7/

The April 4, 1975 and March 10, 1976 proxies contained the following disclosure:

> On December 4, 1974, an indictment was returned in the United States District Court in Chicago, charging a number of individuals, including eight present or former members of the Illinois General Assembly, with making or receiving payments intended to influence public officials in connection with proposed State of Illinois cement and ready-mix concrete truck weight legislation, in violation of Title 18, United States Code, Sections 2, 371, 1341 and 1952. Lester Crown is named a co-conspirator but not as a defendant, has been granted immunity and is not subject to any penalty in this proceeding. 8/

Wesley C. Hall (Hall), Secretary to General Dynamics' executive commitee and a partner in the law firm of Jenner & Block, testified that in January, 1975 (after the indictments were handed down), counsel for Esmark contacted him regarding the necessity of some disclosure of Crown's involvement in the bribery. 9/ Esmark was in the process of preparing a registration statement and proxy materials materials. Since Crown was a director of Esmark, outside counsel felt that some disclosure was necessary. As a result, Hall and counsel for Esmark drafted the disclosure language quoted above (hereinafter referred to as "disclosure language") which also appeared in Esmark's 1975 and 1976 proxy materials. 10/

7/ John P. Maguire, Secretary of General Dynamics, had the primary responsibility for the preparation of the proxy materials. However, he did not learn of Crown's involvement in the bribery and falsification of expense reports until December 5, 1974 and during the summer of 1976, respectively.

8/ The grant of immunity to the two corporations and the other personnel of Material Service and the falsification of expense reports were not disclosed in the proxies.

9/ At the time the above-quoted disclosure language was prepared, Hall knew that either Material Service or Crown had contributed money to bribe legislators, although he does not recall when he learned all the particulars. He was also aware that there was a problem with the expense accounts and that money had been improperly reimbursed to Crown. Hall testified that it wasn't until the summer of 1976 that he learned the details of the falsification. Hall did not provide Esmark's counsel with any information regarding the falsification of expense accounts.

10/ According to Lester Crown, he discussed with Robert Tillinghast, chief executive officer of TWA, Esmark's intended disclosure of Crown's involvement in the bribery. TWA decided not to include any disclosure in its filings with the Commission.

Crown resigned as a director of Continental Illinois Corporation prior to its 1975 shareholders meeting and no disclosure was made in its proxy statement.

Prior to including the disclosure language in General Dynamics' and Esmark's proxies, Esmark's counsel contacted the staff in Washington and was informed that the proposed disclosure was satisfactory. Hall does not know if the staff in Washington had seen a copy of the indictment when discussing this matter with Esmark's counsel. Furthermore, since Esmark's counsel was not aware of the falsification of expense accounts that fact would not have been brought to the attention of the staff.

Jenner testified that he had "enjoined" those officials of General Dynamics and Material Service who knew of the bribery and/or falsification from discussing the underlying facts with anyone. According to Jenner, his instructions prohibited a more detailed disclosure to the SEC prior to completion of the trial. 11/ Jenner said that his instructions of secrecy applied to the underlying facts of the case as well as the fact that certain employees of Material Service were testifying before the Grand Jury. He said that that is an "unwritten understanding" with the United States Attorney's office whenever immunity and Grand Jury testimony were involved. However, according to Jenner, there were never any discussions with the United States Attorney's office as to whether any information could be disclosed to the SEC.

On September 22, 1976, in response to an inquiry from this office, Samuel K. Skinner, United States Attorney for the Northern District of Illinois, set forth in a letter his understanding of the requirement of secrecy. 12/ In his letter, Mr. Skinner states, in pertinent part:

> At no time did I or any Assistant United States Attorney assigned to this matter ever request that General Dynamics Corporation not disclose to the Securities and Exchange Commission the involvement of its subsidiary, Material Service Corporation, or any officer or employee thereof in the aforementioned illicit activity. With respect to the issue of non-disclosure in general during the pending of the investigatory phase of this matter, i.e., from June, 1973 when subpoenas were issued to Material Service Corporation until the return of the indictment in November, 1974, although neither I nor any Assistant United States Attorney assigned to this matter has any specific recollection of a particular conversation, it would be logical to assume that a request would have been made to those cooperating in the investigation to not

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11/ In August, 1976, after completion of the trial and after the commencement of our investigation, General Dynamics filed a Form 8-K which sets forth the underlying facts.

12/ Skinner's letter is attached hereto as Exhibit #1.

> disclose the fact of that cooperation during the pendency of the investigation. The reason for such request would have been that during the investigatory phase the government was attempting to use cooperating former co-conspirators to gather evidence against their former criminal co-venturers. It must be emphasized, however, that such a request, assuming it were made, would have been specifically limited to the fact of cooperation and not to the underlying facts revealed by that cooperation, and also would have been limited to the time during the pendency of the investigation itself.
>
> Upon the return of the indictment, however, the fact that certain employees of Material Service Corporation were cooperating, would have become apparent to all involved since these persons were not named as defendants but were named as unindicted co-conspirators. I thus cannot be more emphatic in rejecting the assertions...that there existed any agreement or understanding calling for the maintenance of secrecy by the corporation or individuals involved "until conclusion of trial following indictment." Any statement by any representative of the corporation with respect to the existence of such an agreement or understanding with this office purporting to extend beyond the date of the return of the indictment the period in which secrecy as to cooperation would have been sought, is factually erroneous.

Obviously, Jenner and Skinner are in disagreement as to when and what could have been disclosed to the SEC and the public. Rather than attempt to judge credibility, we are willing, for the purposes of this recommendation, to accept Jenner's position. As discussed below, General Dynamics was not required to nominate Crown as a director, and therefore arguably could have remained silent about the bribery and falsification of records, thus following the supposed instructions of the U.S. Attorney's office.

V. Violation of Section 14(a) of the 1934 Act and Rule 14a-9 thereunder

General Dynamicsr and Crown violated Section 14(a) of the 1934 Act and Rule 14a-9 thereunder in that Crown should not have been included as a nominee to the General Dynamics board of directors without full disclosure of his involvement in the bribery and falsification of expense accounts. Crown did not have to accept the nomination as a director. As noted above, the 1974 proxy did not contain any reference to the bribery or falsification of expense accounts and the 1975 and 1976 proxies did not disclose Crown's involvement in the falsification of expense accounts. Crown reviewed each of these proxy statements and was therefore aware that they did not contain a full disclosure of his activities. Consequently, Crown should have declined the nomination.

Although Jenner and Lewis knew all of the relevant facts at the time the 1974 proxy statement was prepared we do not believe they should be named as defendants due to Jenner's understanding of the immunity arrangement with the

United States Attorney 13/ Crown's degree of culpability is far greater in that he caused the falsification of corporate reports and participated in the bribery. At the time of the preparation of the proxy materials in question the other directors were not privy to all of the facts. Therefore, they were not in a position to demand additional disclosure 14/

Clearly this information is material to shareholders. Maguire, secretary to General Dynamics, testified that he believed the disclosure which appeared in the 1975 and 1976 proxies "...was a very, very devastating disclosure, particularly since Mr. Nixon at approximately that time had been tagged as an unindicted co-conspirator. I mean, I couldn't imagine a disclosure that could have been more devastating than to admit publicly that you're an unindicted co-conspirator..." In fact when General Dynamics eventually disclosed the details of the bribery and falsification in Form 8-K it did so under Item 13 - "Other Materially Important Events."

As noted in Securities Exchange Act Release No. 34-13185 dated January 19, 1977 at 25: 15/

> The Commission believes that information concerning disclosure of the facts regarding the involvement of directors or top officers in reported instances of questionable payments is highly significant to shareholders in determining whether to give a proxy.... The proxy solicitation process is, of course, the most direct opportunity which shareholders have to endorse or reject the stewardship of those entrusted with the discharge of corporate affiars.... Where individuals who are standing for election to a corporate board or who are a part of top management which is soliciting proxies have been involved in, or personally aware of, questionable or illegal corporate transactions, the Commission believes that shareholders are entitled to more detailed information concerning their role in such matters than might otherwise be necessary.

With respect to the falsification of books and records Release No. 34-13185 at 2 provides:

13/ Although under this circumstance of this case we do not believe Jenner and Lewis should be named as defendants, it is possible to analogize their position to someone who has come into possession of inside information. As long as the party does not trade on that information, no violation of Rule 10b-5 occurs. Similarily, Jenner and Lewis could have prevented Crown's nomination in the absence of full disclosure of his activities.

14/ In addition to Lewis, Jenner and Crown, Lynn (general counsel of General Dynamics) knew of all the revelant facts by August, 1974. However, he did not become a director of General Dynamics until the May, 1976 shareholders meeting.

15/ The Release deals with a proposal which would, among other things, prohibit the falsification of accounting records and require disclosure of questionable payments in the proxy solicitation.

> The Commission's experience has indicated that improper corporate payments are rarely reflected correctly in the corporate books and records... In addition, the need to supress information concerning such payments frequently entails the falsification of records and the deception of auditors.

In addition, Lewis believes that the issue of corporate bribery is very important to the shareholders of General Dynamics and the public at large. At the April 13, 1976 annual General Dynamics' shareholders meeting Lewis condemned corporate bribery. 16/ In his address, which was reported in the "General Dynamics First Quarter 1976 Report to the Shareholders" dated April 23, 1976, 17/ Lewis said:

> There is a national effort being made by the Securities and Exchange Commission and other regulatory agencies to have every corporation disclose more and more fully its true condition - good and bad. General Dynamics is determined to comply with the letter and the spirit of this movement because we believe that our shareholders and our employees need the tools to make an objective appraisal of our management performance and our Company's future prospects.
>
> ...
>
> We are, of course, very gratified by the steady increase in our backlog. However, it is most important to recognize that our Company had built up this record of orders without resorting to the use of questionable agents, the bribing of government or customer officials, or by making illegal political contributions.
>
> ...
>
> I realize that in a Company of our size of about 64,000 people, there is always a possibility that someone down the line has, under the pressures of competition or something else, done something that is in complete violation of the high ethical standards that American industry as a whole subscribes to. But I want to assure you that sometime ago, our board of Directors went on record in a strong and positive manner to direct that our officers and employees at all

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16/ In addition to his remarks at the annual shareholders meeting, Lewis made five speeches between November, 1973 and October, 1976 in which he condemned corporate bribery.

17/ General Dynamics is not required to file, and did not file, this report with the Commission.

> levels conform to the highest ethical standards of American business - wherever we do business. This applies to me, this applies to all of our officers and this applies to all of our employees. The policy is clear. (Emphasis Supplied) 18/

The acts of bribery and falsification of corporate records reflect directly on the competence and integrity of corporate management and should be disclosed. Therefore, Crown should not have accepted nominations until full disclosure could have been made.

VI. Recommendation

We are of the opinion that the proposed defendants should not be charged with false reporting violations (Section 13(a) of the 1934 Act and the Rules thereunder). Until approximately June 1, 1973 Crown and some lesser officials of Material Service were the only people associated with General Dynamics who knew of the bribery and falsification of records. Our investigation has disclosed that none of these individuals participated in the preparation of the reports filed by General Dynamics with the Commission during 1972 and 1973. Further, this office, for the arguendo reasons set forth in this memorandum, has decided to accept Jenner's position that disclosure prior to completion of the trial was not possible because of his alleged understanding with the United States Attorney's Office. Consequently, we do not believe violations of Section 13(a) of the 1934 Act should be charged.

In light of the foregoing, this office recommends that Commission counsel be authorized to commence an action pursuant to Section 21(d) of the 1934 Act in the United States District Court for Northern District of Illinois seeking preliminary and permanent injunctions against General Dynamics and Crown from further violations of Section 14(a) of the 1934 Act and Rule 14a-9 thereunder.

Barry D. Goldman	312/353-7415
Phillip L. Stern	312/353-7429
Elaine Loeser	755-7968
Fred Franklin	755-3213

18/ Attached hereto as Exhibit #2 is a copy of Lewis' remarks to General Dynamics' shareholders.

It should be noted that although Lewis was aware of the bribery and falsification of expense accounts by Crown and other officials of Material Service he did not make reference to it in his remarks.

Goldman

United States Department of Justice

UNITED STATES ATTORNEY
NORTHERN DISTRICT OF ILLINOIS
UNITED STATES COURTHOUSE
CHICAGO, ILLINOIS 60604

SKS:csb

September 22, 1976

SECURITIES & EXCHANGE COMMISSION
RECEIVED
OCT 5 1976
CHICAGO REGIONAL OFFICE

Mr. Barry D. Goldman
Chief, Branch of Enforcement
Regional Office
Securities & Exchange Commission
Room 1204
Dirksen Federal Building
219 S. Dearborn Street
Chicago, Illinois 60604

Re: General Dynamics Corporation and Material Service Corporation

Dear Mr. Goldman:

In response to your letter of September 14, 1976, informing me of the position taken by General Dynamics Corporation with respect to the non-disclosure of illicit activity engaged in by its subsidiary, Material Service Corporation, and officers and employees thereof, I have reviewed the matter and have consulted with various Assistant United States Attorneys who were assigned to the investigation and prosecution of such illegal conduct.

At no time did I or any Assistant United States Attorney assigned to this matter ever request that General Dynamics Corporation not disclose to the Securities and Exchange Commission the involvement of its subsidiary, Material Service Corporation, or any officer or employee thereof in the aforementioned illicit activity. With respect to the issue of non-disclosure in general during the pendency of the investigatory phase of this matter, i.e., from June, 1973 when subpoenas were issued to Material Service Corporation until the return of the indictment in November, 1974, although neither I nor any Assistant United States Attorney assigned to this matter has any specific recollection of a particular conversation, it would be logical to assume that a request would have been made to those cooperating in the investigation to not disclose the fact of that cooperation during the pendency of the investigation. The reason for such a request would have been that during the investigatory phase the government was attempting to use cooperating former co-conspirators to gather evidence against their former criminal

Exhibit 1

co-venturers. It must be emphasized, however, that such a request, assuming it were made, would have been specifically limited to the fact of cooperation and not to the underlying facts revealed by that cooperation, and also would have been limited to the time during the pendency of the investigation itself.

Upon the return of the indictment, however, the fact that certain employees of Material Service Corporation were cooperating, would have become apparent to all involved since these persons were not named as defendants but were named as unindicted co-conspirators. I thus cannot be more emphatic in rejecting the assertions set forth on page 2 of Form 8-K that there existed any agreement or understanding calling for the maintenance of secrecy by the corporation or individuals involved "until conclusion of trial following indictment." Any statement by any representative of the corporation with respect to the existence of such an agreement or understanding with this office purporting to extend beyond the date of the return of the indictment the period in which secrecy as to cooperation would have been sought, is factually erroneous.

With respect to the representations contained in your letter which you state Mr. Chabraja of Jenner & Block ascribed to me in conversations between he and Mr. Stern of your office, I can state that with the possible exception of the aforementioned request not to reveal the fact of cooperation during the investigatory stage of this matter, I have never informed Mr. Chabraja that the persons represented by Jenner & Block in this matter could not discuss their involvement in the bribery of the legislators with any persons other than their attorneys and government officials conducting the investigation. The only possible exception to this would have been requests that cooperating individuals not discuss their testimony with other cooperating individuals.

Finally, I am aware of no rule of law which supports the position which you state Mr. Chabraja is taking whereby a witness would be prohibited from disclosing testimony which he gives to a Federal Grand Jury.

If either I or any member of my staff can be of any further assistance to you in this matter, please do not hesitate to call me.

Very truly yours,

Samuel K. Skinner

SAMUEL K. SKINNER
United States Attorney

Mr. **Wyden**. Let me ask you why you would nominate someone with Mr. Crown's problems, someone who is under grand jury investigation, someone who is an admitted felon, an embezzler of corporate funds? Why in the world would you nominate him to the board of directors?

Mr. **Lewis**. Well, first of all, I did not nominate him to the board of directors. Mr. Crown, Sr., head of the Crown family, as I'm sure you know are major shareholders of our company, far and away the largest, about 1 year or 2 before the date that you have listed in 1973, I had urged the senior Mr. Crown to allow us to put Lester Crown on our board for one reason. At that time Mr. Crown, Sr. was 76 years old. Being that they had such a large, significant percentage of our stock, I thought it would be very adverse to the best interests of our shareholders if we had a new director with that much interest in the company not fully familiar with the activities of the company, to suddenly be called upon to represent the shareholders as a whole.

And after much—and the Colonel, the senior Mr. Crown was opposed to this, as he believed Lester Crown was too busy, had too many other things to do. I prevailed on him. It took about a year to convince him that we should have Lester Crown on the board. To go on with the story——

Mr. **Wyden**. A convicted felon on your board? He admitted that.

Mr. **Lewis**. We are discussing at this point, Mr. Wyden, if you will allow me to keep you in perspective, we are discussing the period before this, the period that you covered so well.

We had agreed some time before this, beginning in 1974, at our annual meeting that Mr. Lester Crown would be elected to our board. And when these issues came out, we had discussions among them. I discussed it at length with counsel, Mr. Jenner, who has known Lester Crown all his life, who has told me that this is a complete aberration; that Mr. Crown is deeply regretful of this action, which is the only blot on his career. And in my judgment, it was in the best interests of the shareholders that he should be proposed, and that was the opinion of the executive committee, which by this time also was privy to the information, is my understanding. This is my memory, I should say.

Mr. **Wyden**. When did it occur to you that Mr. Crown was in the process of obtaining a security clearance, and that the bribery and the embezzlement was going to become a problem?

Mr. **Lewis**. I have no recollection of knowing when Mr. Crown applied for his top secret—is it top secret clearance? Yes; I think that was in 1972, but I'm not sure. But I was not aware that he had applied.

Mr. **Wyden**. The Department of Defense has advised the subcommittee of the requirement for industry to report to the Government any adverse information developed on cleared industrial personnel or personnel in the process of being cleared.

General Dynamics requested reinstatement of Mr. Crown's top secret security clearances in May 1972. That was granted on July 31, 1974. The Department of Defense advised that the adverse information on Mr. Crown was never reported by the company.

Weren't you aware of these requirements, the Department of Defense requirements, to report adverse information like bribery?

Mr. **Lewis**. You say "like bribery." Is that * * * I am not aware of our requirements to keep the Defense Department completely aware of activities in these areas, or when an application is being processed. I was not aware that the application was being processed.

Mr. **Wyden**. The requirement is for any derogatory information of any kind.

Mr. **Lewis**. Would you mind reading that if you have it there? I am really not familiar with that.

Mr. **Wyden**. We have a letter from Secretary Weinberger [see p. 53], and it talks about the contractual obligation as a Defense contractor participating in Defense industrial security program, to comply with the provisions of the "Industrial Security Manual," which requires all participating Defense contractors to submit reports of any information coming to their attention concerning any of their employees, already cleared or in the process of being cleared, with respect to access to classified information, which may not clearly be consistent with the national interest.

Mr. **Lewis**. May I see that letter, please.

Thank you for letting me read this.

Mr. **Wyden**. Do you want to respond to that last question? Were you aware of the Department of Defense requirements to report adverse information, derogatory information, as required by that document you have?

Mr. **Lewis**. I am not aware of that requirement. But it certainly is no surprise, but at the same time I was not aware—I as an individual was not aware of the fact that his application for clearance was being processed. And also we would have to say that we would have been in some sort of a dilemma if we were operating under the assumption that we were not allowed to discuss this issue which is——

Mr. **Wyden**. Just one last question.

Mr. **Sikorski**. I would like to talk about that assumption.

Mr. **Wyden**. I would be happy to yield to the gentleman.

Mr. **Sikorski**. Mr. Lewis, that's preposterous. You are telling us that you can't tell anyone, your board of directors, the Department of Defense, anything about an employee of yours that has to do with admitted felony, because of some arrangement that your lawyer had undertook at your direction?

Mr. **Lewis**. I didn't say that at all, Mr. Sikorski.

Mr. **Sikorski**. What are you saying, then?

Mr. **Lewis**. I am saying that I did not know that his application was being filed at that time.

Mr. **Sikorski**. No; I'm talking about this assumption that you are somehow bound by some agreement with the prosecution on disclosure. What are you saying? What is your assumption there?

Mr. **Lewis**. It's not my assumption. It's what I was advised.

Mr. **Sikorski**. By?

Mr. **Lewis**. By our counsel.

Mr. **Sikorski**. Mr. Jenner—or the counsel Jenner?

Mr. **Lewis**. That we were not allowed to discuss this issue of the investigation by the Federal grand jury in Illinois.

Mr. **Sikorski**. With?

Mr. **Lewis**. With what?

Mr. **Sikorski.** With anyone? With the Department of Defense?

Mr. **Lewis.** No, that subject never came up.

Mr. **Sikorski.** With your members of the Board? You just weren't in any instance, at any time, to discuss that issue? Is that correct?

Mr. **Lewis.** I would not say that that was correct or incorrect. The issue was not involved in any way with the Department of Defense during our talking, discussing of this issue in 1973.

Mr. **Sikorski.** It certainly was, as an application for a top secret security clearance is being processed. Let me read to you——

Mr. **Lewis.** Had I been privy to the knowledge that he had that application in process and had focused on that issue, it certainly would have been a consideration.

Mr. **Sikorski.** Then you wouldn't have been bound in that instance by any arrangement that your lawyer had with the prosecution?

Mr. **Lewis.** No; I would have had to investigate what is our obligation.

Mr. **Sikorski.** Let me read to you the letter from the U.S. attorney for the northern district of Illinois to Mr. Barry D. Goldman, who is the chief Branch of enforcement for the Chicago regional office of the SEC on this issue. [See p. 67.] He said:

"At no time did I or any assistant United States Attorney assigned to this matter ever request that General Dynamics Corporation not disclose to the Securities and Exchange Commission the involvement of its subsidiary, Material Service Corporation"—which, as an aside, was headed by Mr. Crown—"or any officer or employee thereof in the aforementioned illicit activity." That is the bribery process. "With respect to the representations contained in your letter"—this is the letter of Mr. Goldman who is with the SEC—"which you state Mr. Chabraja of Jenner & Block, ascribed to me in conversations between he and Mr. Stern of your office, I can state that with the possible exception of the aforementioned request not to reveal the fact of cooperation during the investigatory stage of this matter, I have never informed Mr. Chabraja that the persons represented by Jenner & Block in this matter could not discuss their involvement in the bribery of the legislators with any persons other than their attorneys and Government officials conducting the investigation. The only possible exception to this would have been requests that cooperating individuals not discuss their testimony with other cooperating individuals.

"Finally, I am aware of no rule of law which supports the position which you state Mr. Chabraja is taking whereby a witness would be prohibited from disclosing testimony which he gives to a Federal grand jury."

Mr. **Lewis.** What is the date of that?

Mr. **Sikorski.** This letter is dated September 22, 1976.

Mr. **Lewis.** Do you have another copy of that Mr. Sikorski?

Mr. **Sikorski.** We will get you a copy.

My comment to you is, it is illogical, it is illogical that you as chairman of the board of General Dynamics cannot talk to people within General Dynamics and your No. 1 customer—in fact, your only real customer, the Department of Defense—about an employee of yours who has undertaken two things, not one thing, a bribery scheme where State legislators were both indicted and convicted; and second, falsification of your corporate records so as he could get recompensated for the bribery money that he put up out of his personal accounts.

I find it illogical and legally preposterous that you can come here and claim to have tied your hands behind your back on that issue.

Mr. Lewis. It may be, from your viewpoint, as it's a legal issue, from my view, receiving legal counsel, that is what advice that I received.

Mr. Sikorski. One last question. The counsel in this case is the Jenner law firm; right?

Mr. Lewis. Yes.

Mr. Sikorski. They are the law firm for the corporation; is that correct?

Mr. Lewis. That is correct.

Mr. Sikorski. Were they the law firm for Mr. Crown as well?

Mr. Lewis. I am not sure. I know that Mr. Jenner was counsel for Mr. Crown—well. no, I shouldn't say that. I'm not sure whether it was Mr. Jenner or Mr. Chabraja.

Mr. Sikorski. Mr. Jenner works for you?

Mr. Lewis. I believe it was Mr. Chabraja.

Mr. Sikorski. You allowed him to enter into an agreement which bound you, bound the information that you could disclose to your stockholders, to your board of directors, at the same time you are asking them to elevate this individual to a seat on the board of directors?

Mr. Lewis. I wouldn't phrase it that way at all.

Mr. Sikorski. I want you to answer the question.

Mr. Lewis. Well, ask the question.

Mr. Sikorski. The question is you entered into an agreement, you instructed your counsel to enter into an agreement with the prosecution to bind the disclosure of your information——

Mr. Lewis. That is absolutely incorrect. I directed neither Mr. Jenner nor Mr. Chabraja nor anyone else with respect to any action they should take with respect to Lester Crown in the grand jury activity, period.

Mr. Wyden. Reclaiming my time, one last question, Mr. Lewis. Did you personally support Mr. Crown's nomination? Someone who is under grand jury investigation, an admitted felon, an embezzler of corporate funds? Did you personally support his nomination to the board of directors?

Mr. Lewis. I personally supported his nomination to the board of directors for the exact reasons I gave you earlier. I gave you that answer, clear and sharp. I did recommend him and I voted for him. And I think it was the correct thing to do for the benefit of our shareholders.

Mr. Wyden. And I think that, based on your answers to this question, the fact that you violated the Department of Defense rule, a rule that requires that you report this kind of derogatory information—you've got very capable lawyers who can tell you about these rules—and that you personally supported this gentleman, an admitted felon, someone under grand jury investigation, is a disgrace. And I am going to allow the chairman to resume, but it is a very, very serious transgression, in my view, of the public trust.

[The following document was submitted:]

xc: R. H. Duesenberg
G.E. MacDonald
W. I. Ferrier
A. H. Rambeau

DEFENSE INVESTIGATIVE SERVICE
1900 HALF ST., S.W.
WASHINGTON, D.C. 20324-1700

MAR 6 1985

Mr. David S. Lewis
Chairman of the Board
General Dynamics Corporation
Pierre LaClede Center
St. Louis, MO 63105

Dear Mr. Lewis:

The Secretary of Defense has recently directed the Defense Investigative Service to review the facts and circumstances associated with the processing and granting of a TOP SECRET personnel security clearance for Mr. Lester Crown, a director of your company. As you know, unbeknownst to the Department of Defense, at the time Mr. Crown was first granted a clearance, in December 1974, he had been named as an unindicted co-conspirator in a report of a federal grand jury.

Specifically, the Defense Investigative Service needs to know why General Dynamics Corporation failed to report to the Department of Defense this significant adverse information regarding Mr. Crown. The Industrial Security Manual, to which General Dynamics as a cleared defense contractor is contractually bound, requires the report of any information that reflects adversely on the integrity or character of an employee who has been cleared or is in the process of being cleared for access to classified information.

We regard this requirement as serving a key role in the overall effectiveness of a contractor's security program. It serves little purpose to establish elaborate procedures to create a secure environment for the protection of classified information only to place within that environment individuals whose background suggest their ability to safeguard classified information may be impaired. Accordingly, I would also like you to inform me what procedures you have in effect throughout General Dynamics to prevent a recurrence of this reporting failure and how you plan to ensure that any adverse information which may be developed regarding your cleared employees, officers, and directors will be reported in the future.

I look forward to your prompt reply to this matter.

Sincerely,

Thomas J. O'Brien
THOMAS J. O'BRIEN
Director

Copy to: Mr. Lloyd M. Kelley
Director of Industrial Security
Southwestern Region, DIS

RECEIVED
MAR 8 1985
Office Of
The Chairman

Mr. **Dingell**. The Chair. will recognize the gentleman from Minnesota, Mr. Sikorski.

Mr. **Sikorski**. Thank you, Mr. Chairman.

Mr. MacDonald, I want to discuss with you an issue that is the primary concern of the subcommittee, because it appears to be a clear Securities and Exchange Commission violation.

Let me quickly summarize my understanding of the events that led up to General Dynamics issuing a questionable press release on November 30, 1977, relating to the delivery schedules of the first Trident ballistic missile submarine.

On November 29, 1977, two Navy admirals announced at a press conference that the Trident was going to be 6 months late, and $400 million over budget.

That afternoon, General Dynamics' stock dropped 1½ points. In order to counter the slide in the stock, General Dynamics headquarters, including you and Mr. Lewis, drafted a press release clarifying the budget confusion and denying the schedule slip, and provided it to Mr. Veliotis, the head of Electric Boat, for review by him.

The draft press release claimed that the Trident would be delivered in October 1979. Veliotis objected to the press release as not being realistic. Veliotis told you and others at General Dynamics headquarters that the Trident would not be delivered before the end of 1980, and with a full year delay.

In fact, it was delivered in October 1981, even longer.

Let me play for you selected portions of these tapes.

[Testimony resumes on p. 90.]

[Excerpts of the taped conservations follow:]

Transcript: 10/4/84

VELIOTIS TAPES
November - December 1977

(Conversation with Gorden MacDonald, two conversations Nov. 29, 1977, 2:00 and 2:30 p.m.)

GEM: Taki, he wanted me to call you, we're gonna start the meeting in 10 minutes, the Executive Committee, you want to... we gave a copy of this release that just hit the newspaper.

PTV: What release?

GEM: Its says, ah, delivery of the Navy's first Trident strategic missile submarine will be delayed about a year, to 1981, because of productvity problems at General Dynamics Electric Boat Division... Rear Adm. Donald Hall, the Trident project engineer explained that the General Dynamics unit has found it more difficult than it anticipated to construct the submarine, the largest ever built by the Navy. As a result, the cost of the initial submarine has risen to $1.193 billion, about $400 million more than the initial estimate when the program began. However, Adm. Hall said the General Dynamics unit could still make a profit on the first submarine if the price does not rise further, and, ah, this hit the Dow Jones wire....

PTV: Who put that out?

GEM: The Navy. I just wondered if you were, I just wanted to know if you were aware of it.

PTV: No, the first time I hear about it.

GEM: Ah, huh. This apparently hit right about noon, just an hour ago.

PTV: That's the first time I hear about it. We have no report on the Trident ourselves, ah, for some people they came down here, last month and I told them there were Morris ? and Forrester from the Armed Services Committee and the congressional committee on armed servies and I told them I'm sorry I cannot talk about Trident ... deliveries, nor can we ... until I conclude my studies. So I dont think it came out of here. '81 they say now? before February

GEM: It says '81, right.

PTV: Yeah... we, I ... (don't) see that date, I don't know Gorden.

GEM: Okay, well I can just tell the board that came out of the Navy....

PTV: ...Lots have come out of the Navy, from what you read to me...

GEM: Right.

PTV: If I heard you right, from Adm. Hall, then I think we should be calling Adm. Hall and giving him shit.

GEM: Yeah, I'd like to, I just don't want to interfere with your deal.

Page 2, Transcript

PTV: No, you're not interfering with my deal at all.

GEM: Oh, okay, I'll do it then.

PTV: Get to Mr. Hall and tell him to fuck himself.

GEM: Right.

PTV: It's not our date.

GEM: Okay.

PTV: You know. Don't give him any dates though.

GEM: No I won't.

PTV: Yeah.

GEM: Real good, Taki.

PTV: Okay.

GEM: Thank you.

PTV: Okay, bye, bye.

Transcript: 10/4/84

VELIOTIS TAPES
November - December 1977

CONVERSATION NO. 2
Veliotis-Gorden E. MacDonald

GEM: Adm. Hall couldn't. I did get a hold of Russ Bryan, and, ah, I read it to him and he said that is completely wrong. He said the reporter misundertood it, and he said what he said was that the deployment of the Trident submarine, that's when the Navy actually puts it into the fleet, not when it's delivered, is a year later than had been publicly published. See what was published was December 81 and that was a "best efforts" schedule.

PTV: December '81 by whom?

GEM: No, December '78, was the "best efforts" schedule that the company agreed to when they signed the contract.

PTV: Yeah, the Navy, they know and we know...

GEM: That's right..

PTV: ... that it won't be before the end of 1980.

GEM: And I told them that ah, I guess it was in July, that it was not going to be December '78, it was going to be October '79.

PTV: Well, you told them about a year and two months too early.

GEM: And, ah, and they said, You're too optimistic, and I said, That's probably true, but that's all we're willing to go to now.

PTV: Why, are we willing to go on, on to that now? Why not tell them the truth from the beginning, when we all, everybody here knew that it cannot be done before the end of 1980. I would really ....

GEM: Everybody up there says that?

PTV: Everybody, there's a letter that they have sent to you, copy to Lindal that fellow Norman Victor, and you know, they say they told you it won't be before the end of 1980.

GEM: No one, Foley never agreed to that.

PTV: I beg your pardon?

GEM: Ed Lindal never agreed to that.

PTV: Ed Lindal is an asshole, if I may tell you, sir, an optimistic asshole. He spoke with me Gorden, he doesn't know what it's all about. He doesn't talk to you, he talks to me now, he was going to man the ship with 2,750 people. He must an idiot and I told him so, and now he realizes he cannot do that.

GEM: Uh-hum.

PTV: So, the ship is not completed 40 percent, the ship is only completed 35 percent.

GEM: Uh-hum.

PTV: And the manhours aren't going to be 12 million hours, they're going to be about 15 million hours.

GEM: Uh-hum.

PTV: And Lindal is the optimist, you know, he will do it with blood and sweat. How many times he made good on his promises to you? Never.

GEM: You're right.

PTV: So anyway, I told ... that doesnt bother me....

GEM: No that isn't the point. The point was, that since that announcement hit the wire, we've already lost another one and half points on the stock.

PTV: Yeah.

GEM: And, the question is, ah, if the Navy put that out and put it out inappropriately, and then you come out, ah, like February or March and you slip it another year, then it's gonna look in the press at that time that it's another year slip on top of the one the Navy just announced.

PTV: I don't understand that. One, myself, I believe .. to discuss schedules, I will come and discuss schedules with Lewis and I will tell him what the schedules are. If they dont like them, you know, there's nothing I can do.

GEM: No, I'm not talking about that. I'm talking about with this statment out, and then three months later you got another year's slip, that's what it will look like to the people.

PTV: I don't know, I wont speculate on that Gorden, after three months, very few people they will remember about this statement.

GEM: Okay, the most important thing I wanted to tell you though, is, when I talked to Bryan, Bryan said that:'You know I met with Veliotis right after he took over,' and I said, Yes, I know that, and he said, I promised not to bother him until he had his feet on the ground, he said, Are you going to be talking to him again, and I said, Yeah, I want to call him back and tell him what you told me about this press release, and he said, Would you please ask Taki if he could possibly call me before four o'clock, that's Adm. Bryan.

PTV: Yeah, why he doesnt call me himself. Why didnt you tell him to call me himself.

GEM: I did. And he said, are you going to call Veliotis? And I said, I want to give him this message.

PTV: And why he doesnt tell you to give his message yourself?

GEM: Yeah.

PTV: Yeah, you know.

GEM: I told him to call you.

PTV: Yeah.

GEM: And he asked me to ask you.

PTV: Okay, I will call him.

GEM: Right.

PTV: What else Gorden.

GEM: That's all.

PTV: Okay, my friend.

GEM: Thank you.

PTV: Your welcome.

Transcript: 10/4/84

VELIOTIS TAPES
November - December 1977

CONVERSATION NO. 3 Bryan - PTV

Nov 29, 1977

Bryan: Hah, Hah. That's a hard question...

PTV: Go ahead.

Bryan: Well, as I mentioned to Gorden a few minutes ago, when he called about this press release business, that you came down here of course a couple of days after you took over...

PTV: Yeah, that's right.

Bryan:.. and said you're gonna do a lot of things and it'd be three or four weeks before the dust settled and just bear with you. Ah, I've done that and I know, (chuckles) also I deliberately restrained myself from bothering you because I knew so goddamned many people were coming up there, congressional staff and everybody else.

PTV: Uh-hum.

Bryan: So here we're coming to the point where I really feel that I ought to be able to tell my bosses when I think we're gonna know what your conclusions are, what the future of the schedules and the situations are gonna be on the ships up there. And of course this damned press conference today didnt do anything to lessen the immediate date, waiting to know when the next shoe is going to drop.

PTV: Well I am, well I don't know. The press is good for misquoting people, you know, and giving the stock market misquoted. Another function they have is to keep the papermills, the Canadian papermills going you know....

Bryan: (Laughs)...

PTV: Anyway, while I am, you know, trying to see where I'm going here and find out where I am, I have an idea what the schedules they're going to be. I havent developed them carefully yet. It's a question of people, machinery, you know the story better than I do, and I have promised my master, Dave Lewis, that 90 days from the day I came, I will present him with the whole story. So that brings us to the end of January, that's when the congressional people they came and they asked me about the Trident, I said I cannot tell you yes or no right now, I said, come the beginning of February. So admiral what I would like to do is that about that time, by the end of January, after I clear it with Dave Lewis to come and see you and talk to you and put my cards on the table.

Bryan: Fine Taki.

PTV: Is that alright?

Bryan: Yeah, if that's when you'll be ready, I don't want you to come and tell me until you're ready.

PTV: Exactly, because, if I gave you half of the story now, you know, hey, you know, So I can give you a schedule that you believe it and I believe it ... and both of us we can adhere to and , you know, to have confidence.

Bryan: Yup, yup. Okay, so what, about the end of Janaury, first of February, Taki.

PTV: Exactly. Last week of January, first week of February.

Bryan: All right.

PTV: Okay.

Bryan: Now is there anything I can do for you?

PTV: No, not really. One thing I have to say, you're not as bad as I though you were...

Bryan: Laughs.

PTV: ... as I was told. The people here they are trying to help me a lot. They are trying to help me a lot.

Bryan: Well, I really think they need to Taki.

PTV: They are trying to help me a lot. You know I had heard stories about how bad the customer is, but I havent found the customer bad at all. The only customer in here is a customer wants to get a product and equip with the specifications, so...

Bryan: That's right.

PTV: So, I have no quarrel there.

Bryan: Alright Taki.

PTV: Okay.

Bryan: Alright Taki.

PTV: I thank you very much.

Bryan: Right-oh.

PTV: Bye Bye.

Transcript: 10/4/84

VELIOTIS TAPES
November - December 1977

CONVERSATION NO. 4.
Veliotis - Bryan's aide.

Adm Webber - PTV
Nov 30 1977

Aide: ... really a follow up call to the call that Admiral Bryan had placed ...

PTV: Yes.

Aide: I believe...[not clear]... there's been a requested meeting with the New England...

PTV: ...Delegation.

Aide: ... Congressional delegation, ah, and one of the things that Admiral Bryan really would, reason for his call to you, was to get ah your agreement that you could be quoted as saying that you were reaffirming the situation at EB and it would be late January, early February before you really had completed your review of things up there.

PTV: Absolutely right.

Aide: And, he just wants to make sure that it was alright for him to say...

PTV: It's alright, it's what I told him...

Aide: ... forum that, you know, he wanted to get your agreement that was okay.

PTV: Absolutely right.

Aide: Okay, fine, I'll tell him that would be the answer and I very much appreciate it.

PTV: Thank you very much.

Aide: Okay, thank you.

PTV: Thank you, thank you bye bye.

CONVERSATION WITH ADMIRAL WEBBER, WEDNESDAY, NOV. 30, 1977, 10 AM

ON NOV. 30, 1977, AT 2:10 PM.

CONVERSATION NO. 5
VELIOTIS-JOHNSON, CHIEF OF PR, GENERAL DYNAMICS.

PTV: Of course I have.

Johnson: Okay, .. 29 November, Rear Admiral Donald Hall, the Navy Trident Submarine project manager and Rear. Adm. Albert L. Kelms, director of the strategic submarine division, released a statement and held a press conference on the subject of the status of the first Trident ballistic missile submarine under construction at the Electric Boat Division of General Dynamics. In this presentation, it was pointed out that the Navy anticipates cost overruns of approximately $400 million and a delay in the delivery of the first ship of approximately one year. It is apparent from all reports that the media representatives attending the briefing gave the impression that the overrun was exclusively attributable to increased production costs at the Electric Boat Division of General Dynamics. This is not correct. The following is a break down of the overrun of the $400 million anticipated by the Navy. 20 percent design contract. This has no connection with the construction of the ship. 18.5 percent, government furnished equipment, not asociated with General Dynamics. 33 percent, escalation resulting from higher than anticipated inflation. 28.5 percent. Navy estimate of submarine construction cost increases at Electric Boat. General Dynamics does not agree with the magnitude of the overrun estimated by the Navy. In either case, however, the suggestion that General Dynamics is close to its ceiling price on the first ship is incorrect. General Dynamics believes that the first Trident and all of the Tridents currently under contract will be completed on a profitable basis by General Dynamics. With regard to schedule, General Dynamics has advised the Navy that it expects the first ship to be delivered in October 1979, approximately six months after contract delivery date. The Navy believes that a delivery date of April 1980 is more likley. The Navy and General Dynamics are working actively and agressively to minimize changes and to assure that no further cost overruns or schedule slippages occur. We intend to continue this practice.

That's our statement. Now the Navy is gonna put out a statement of its own....

PTV: Well, that, that about deliveries I dont know who gave you the deliveries, they're not mine.

Johnson: Ah, deliveries, ah, well, when we say that we told the Navy that we expect it to delivery in October '79?

PTV: Yeah.

Johnson: That was a statement that was issued back in August.

PTV: Yeah.

Johnson: And that's what we're saying there.

PTV: Yeah.

Johnson: We havent given the Navy any later dates have we?

PTV: No I havent given the Navy any later dates, ... when they ask me, and I told them I won't be able to before the end of Janaury, beginning of

February to tell them what the delivery dates are going to be.

Johnson: Yup. Yup.

PTV: But I know they're going to be later than what you are saying.

Johnson: Oh, I see, okay. Ah, is it going to be later than what the Navy is saying?

PTV: Yes, it will.

Johnson: Okay.

PTV: So, you know, I don't know whay `okay' means, but, ah, you know, the way we're putting, the way it is put out, you know, it gives the impression that, hey, we are going to meet an April 1980 delivery.

Johnson: That's right.

PTV: Well, that is not what I know yet. I dont know, but I dont think we can meet that. See what I'm saying?

Johnson: I will tell that to Dave.

PTV: You tell him that, Dave. And MacDonald hasn't talked to me and I dont think MacDonald knows what it's all about.

Johnson: Okay, okay, I will tell him that, Taki.

PTV: You do that.

Johnson: So .. do you see any problems with it.

PTV: I dont see any problems at all.

Johnson: Okay. The Navy's gonna put out its own statement at about 3 o'clock.

PTV:.. Because what I would have said myself, there, I would have said you know, about deliveries, and we have advised the Navy that we're working you know to establsh the best possible delivery and will advise them sometime in January or February. That's what I told Admiral Bryan, Adm.Bryan called me and says to me, what about deliveries. I dont know yet, I said, I will know end of January, beginning of February.

Johnson: Okay.

PTV: You can say, you can say what you say that we gave them a delivery in end 1979, and they say April, however, now we are working, you know, to, to, to evaluate the situation and will come out with a delivery in end of January beginning of February and whatever it will be it will be.

Johnson: Yeah.

PTV: You understand what I mean.

Johnson: Yeah, okay.

PTV: Okay, my friend, what else.

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Johnson: Now, the Navy, as I say, the Navy is gonna put out a statement of its own, Ah, which parallels this one to a considerable degree, it goes into a lot more detail about what the Trident program is all about, and instead of using percentage figures it uses dollar figures.

PTV: Yeah.

Johnson: The one big problem with it, and we talked, Dave talked to Secy. Hidalgo, ah, about it, and the big problem is it doesnt make any reference to the fact that we are not close to ceiling. And yet the press reports are all indicating that we are very close to going over ceiling. So, uh, we're trying to get the Navy to put that statement in their release. I don't know they will.

PTV: Ah, we'll see.

Johnson: At it'll all be out on the street by three o'clock. 3:00 pm

PTV: Yeah, well, then if it's going out you say by three o'clock you have sent that message out about the deliveries. You cannot change anything right now.

Johnson: Well, I've still got, we havent sent ours out, and I'm going...

PTV: We haven't sent ours? You tell that to Dave what I said.

Johnson: Yeah, we'll do that.

PTV: That I don't know about the delivery, you know, don't know shit about April delivery, I'm investigating the situation. The Navy they call me, Bryan called me on the telephone and says what about deliveries, Taki, when are you going to let me know, I said I told you three months after I took over, and three months they come up end of January, beginning of February.

Johnson: Okay.

PTV: Okay?

Johnson: Yes, sir.

PTV: Okay, my friend.

Johnson: Take care, Taki.

PTV: Okay, bye, bye.

Nov. 30 1977 4 pm

Transcript: 10/4/84

VELIOTIS TAPES
November - December 1977

CONVERSATION NO. 6
VELIOTIS-MACDONALD.

GEM: I talked to Secretary Claytor and Secretary Hidalgo and ah, Admiral Bryan five or six times this morning and they even had ah Secretary Brown in on the problems with the press. We made a release about an hour ago and Joe Wornum should have a copy of it.

?

PTV: Yeah, the fellow, your fellow Frank, he read me the release.

GEM: Oh good.

[redacted]

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PTV; ...Yeah, and I told him, did he come back to tell you that those dates that you give there, they're not real?

GEM: Yes.

PTV: He told you that.

GEM: Yes.

PTV: But you still want to do it?

GEM: Yes, Dave wanted to go ahead anyway. And, ah, the other thing is, that ah, Secretary Hidalgo called me and read me the Navy release and ah, it's a very good one, and ah, all it does is says that they don't agree with a lot of things that were said by the press and that should be ah, should have been out about ten minutes ago and Al Spivak in Washington is gonna datafax that to Joe Wornum the minute he gets it.

PTV: Because I spoke with Bryan myself, and ah, he said when are you going to let me know about deliveries and I said I don't know yet.

GEM: Right.

PTV: I will let you know, I said end of January, beginning of February.

GEM: Uh-huh.

PTV: ... when the three months, they're gonna be up. But what we're saying in that press release, we're giving the impression to people that we are going to deliver the ship in April 1978, there is no chance of doing that. [Pause] No way.

GEM: No, you mean ah, we said Oct. 1979...

PTV: Sorry, in April 1980...

GEM: And the Navy said April '80.

PTV: '80 and and April '80, it's not real.

GEM: And, ah, we understand that too. And Dave understands that. But he wanted to go ahead only to stop our stock from sliding.

PTV: We have, at some time, we have to tell people the truth you know.

GEM: I know it.

PTV: At some time we have to come out and say what the delivery is. And I don't know what the stock will do at that time, but we have to do it.

GEM: Right, but at that time, Taki, at whatever time you come up with it and have it, then we, ah, your .....[RECORDING FADES TO BACKGROUND NOISE.]

PTV: ... 1977, 9:05 ?

Mr. **Sikorski**. Mr. MacDonald, did you recognize your voice on that tape, as unclear as it is in parts?

Mr. **MacDonald**. I do.

Mr. **Sikorski**. Let me restate from the transcript a couple discussions. You say: "They said, 'you're too optimistic,' and I said, 'That's probably true, but that's all we are willing to go to now.' "

Mr. Veliotis says, "Why are we willing to go on, on to that now? Why not tell them the truth from the beginning, when we all, everybody here, knew that it cannot be done before the end of 1980. I would really * * *"

Then you say, "Everybody up there says that?"

Mr. Veliotis says, "Everybody. There's a letter that's been sent to you, a copy to Lindahl that fellow, Norman Victor, and you know, they say they told you it won't be before the end of 1980." And it goes on.

> Mr. **Veliotis**. So the ship is not completed, forty percent? The ship is only completed thirty-five percent?
>
> Mr. **MacDonald**. Uh-huh.
>
> Mr. **Veliotis**. And the man-hours aren't going to be twelve million man-hours. They're going to be about 15 million man-hours.
>
> Mr. **MacDonald**. Uh-huh.
>
> Mr. **Veliotis**. And Lindahl is the optimist, you know. He will do it with blood and sweat. How many times has he made good on his promises to you? Never.
>
> Mr. **MacDonald**. You are right.
>
> Mr. **Veliotis**. So anyway, I told you that doesn't bother me.
>
> Mr. **MacDonald**. No, that isn't the point. The point was, that since that announcement hit the wire, we have already lost another one and a half points on the stock.

Is that what you said?

Mr. **MacDonald**. Well, first of all, if I may, I heard that tape more than one time in the Justice Department. I don't have a transcript of it, but I do recall what I heard.

No. 1, there is no question in our minds that the tape has sections of it, and in listening close, as we did, there appears to be other parts of conversations moved into one conversation.

Mr. **Sikorski**. Mr. MacDonald, on the tape that you just heard, is that inaccurate?

Mr. **MacDonald**. Yes. It doesn't tell the whole story. There was more in the conversation than just schedule.

Mr. **Sikorski**. I am talking about schedule. I don't want to talk about anything else. I am talking about reference to the schedule, is that tape accurate? Did you say those words? That is your voice on the tape?

Mr. **MacDonald**. Yes, but I don't know whether—you mean you are not going to let me say anything about the costs that was the main part of the telephone conversation.

Mr. **Sikorski**. I don't want to talk about the costs.

Mr. **MacDonald**. The 1½ points on the stock related to the cost, not the schedule.

Mr. **Sikorski**. We just heard a conversation on the tape that went through blood, sweat, and tears with regard to schedules, and that is what we are going to focus on.

Mr. **MacDonald**. Have you ever listened to the whole tape?

Mr. **Sikorski**. I have the transcript of the whole tape, and I've read it, and I want to focus on the schedule.

Mr. MacDonald. What about the blanks on the tape? You're not going to talk about that?

Mr. Sikorski. Mr. MacDonald, the question becomes whether those parts of the tape that relate to possible Securities and Exchange violations are accurate.

Mr. MacDonald. My answer is, that tape is not accurate. There was more conversation than is on it.

Mr. Sikorski. Why don't we play the rest of the language on the tape?

[Tape recording played.]

Mr. Sikorski. Let me read the final part of the transcript of that tape.

Talking about schedules, evidently you had a discussion with Secretary Claytor, Assistant Secretary Hidalgo, Admiral C.R. Bryan, five or six times a morning. They even had Secretary Brown in on the problems.

Mr. Veliotis said, "Yeah, and I told him." That is your press person, Frank Johnson.

Mr. Veliotis. Did he come back to tell you that those dates that you give there, they are not real?

Mr. MacDonald. Yes.

Mr. Veliotis. He told you that?

Mr. MacDonald. Yes.

Mr. Veliotis. But you still want to do it?

Mr. MacDonald. Yes. Dave wanted to go ahead anyway.

"Dave" is Mr. Lewis?

Mr. MacDonald. Yes.

Mr. MacDonald. And now the other thing is that Secretary Hidalgo called and read me the Navy release, and that's a very good one, and all it does, it says that they don't agree with a lot of things that were said by the press and should have been out about 10 minutes ago, and Al Spivak back in Washington is going to Datafax that to Joe Wernam the minute he gets it.

Mr. Veliotis. Because I spoke with Bryan myself. Now he said, "When are you going to let me know about deliveries," and I said, "I don't know yet."

Mr. MacDonald. Right.

Mr. Veliotis. I will let you know. I said the end of January, beginning of February.

Mr. MacDonald. Uh-huh.

Mr. Veliotis. When 3 months are going to be up, if what we're seeing in that press release, we are giving the impression to people that we are going to deliver the ship in April 1978. There's no chance of doing that. No way.

Mr. MacDonald. No. You mean, we said October 1979.

Mr. Veliotis. Sorry. In April 1980.

Mr. MacDonald. The Navy said April '80?

Mr. Veliotis. '80, and April '80. It's not real.

Mr. MacDonald. And we understand that, too. And Dave understands that. But he wanted to go ahead only to stop our stock from sliding.

Mr. Veliotis. We have, at some time, we have to tell people the truth, you know.

Mr. MacDonald. I know it.

Mr. Veliotis. At some time, we have to come out and say what the delivery is, and I don't know what the stock will do at that time, but we have to do it.

Mr. MacDonald. If you read the Navy press briefing that is in the hands of the committee, the primary emphasis of the whole briefing and our press release that we made was cost. The schedule was not a material factor to our stock at all.

Mr. Sikorski. Mr. MacDonald, your press release and these conversations surrounding that press release detail information with regards to the schedule. Your press release was not accurate with regard to the schedule in your knowledge and Mr. Lewis' knowledge at the time that press release was distributed.

Mr. **MacDonald**. That is not true.

Mr. **Sikorski**. It's not true?

Mr. **MacDonald**. It is not true. On the 24th of October 1977, Mr. Veliotis took over Electric Boat, and I returned back to the corporate headquarters. I had been given a schedule in July of that year that said we would deliver the Trident in October 1979, I believe it was.

The Navy released that in August 1979 to the press. I had a report from the gentlemen's names you mentioned, the program manager of the Trident program and the scheduling man for the whole yard, Norm Victor in the latter case, who, at the time I left the yard, said that our schedule had slipped 10 weeks.

But we had another 2½ years to go yet, and there's no way we can't make that up. The program manager told me that, and the primary scheduler for the Electric Boat yard said that.

Mr. **Sikorski**. I yield to you, Mr. Chairman.

Mr. **Dingell**. I have a curiosity. My colleague just read you a lengthy transcript of the tape.

Was that reading in any way inaccurate with regard to your discussions with Mr. Veliotis?

Mr. **MacDonald**. Mr. Chairman, my whole point is, the whole conversation is not there.

Mr. **Dingell**. Let me repeat. Mr. Sikorski just read you a lengthy portion of one of the tapes.

Not dealing with the whole tape at all, but dealing only with the portion that Mr. Sikorski has read to you, were there any inaccuracies in the portion of the tape which he read to you?

Mr. **MacDonald**. No. It's the part that was left out that I'm complaining about.

Mr. **Dingell**. So the portion of the tape which he read to you is correct and a fair representation of the discussion which took place between you and Mr. Veliotis at the time and place?

Mr. **MacDonald**. It is only a fair representation of the part of the conversation we had.

Mr. **Dingell**. That's correct. But isn't that part fully correct? Your complaint goes to the whole of the tape and not to the portion which Mr. Sikorski has just read. So the portion that he read represents the discussion which took place between you and Mr. Veliotis, insofar as the portion of the tape represents it; is that correct?

Mr. **MacDonald**. I beg your pardon. No.

Mr. **Dingell**. Is there any alteration of the portion of the tape read to you by Mr Sikorski?

Mr. **MacDonald**. I'll have to answer it this way. I hope I answer the question.

The sliding of the stock related to cost, and the cost is not in there.

Mr. **Dingell**. Mr. MacDonald, if you don't mind, we have a certain question which is now before us. I would very much appreciate it if you would direct your attention to that.

Mr. Sikorski has read to you a portion of the tape. Is any portion of his reading of that portion of the tape incorrect, unfactual, or altered in any fashion from the discussion which took place between you and Mr. Veliotis at that time?

Mr. **MacDonald**. I couldn't answer that.

Mr. **Dingell**. So you don't know?

Mr. **MacDonald**. I don't know.

Mr. **Dingell**. Do you then allege that any portion of the tape that is read by Mr. Sikorski is incorrect?

Mr. **MacDonald**. Well, I hear my voice. I know what I've said there. I'm just wondering, where is the rest of it?

Mr. **Dingell**. So you don't make any allegations that any portion of this does not fairly represent the discussion that took place?

Mr. **MacDonald**. Oh, yes, I certainly do.

Mr. **Dingell**. Any portion of the tape that has been read to you by Mr. Sikorski? Now I'm not talking about the whole of your discussion or the whole of the tape. I'm just asking about that portion which has been read to you by Mr. Sikorski.

Mr. **MacDonald**. My answer would be completely out of context, if I can't have the whole conversation and come to a conclusion.

Mr. **Dingell**. We will insert the whole of the transcript, as we have it, in the record at the appropriate place. [See excerpts beginning on p. 76.]

I am asking you again to direct your attention to the portions of the tape that have been read by Mr. Sikorski. Do you make the allegation at this time that they are in any way unfactual or untrue or altered?

Mr. **MacDonald**. Altered.

Mr. **Dingell**. What portion of the tape that has been read by Mr. Sikorski has been altered?

Mr. **MacDonald**. The rest of the conversation.

Mr. **Dingell**. I'm asking about the portion, Mr. MacDonald, am I having trouble getting through here?

Mr. **MacDonald**. No, you're coming to the conclusion on a part of the tape.

Mr. **Dingell**. No. I'm not coming to any conclusion. I'm asking a question. I will come to my conclusions later. And your correct answering of the questions and your forthcoming response to the questions will dictate my conclusions after the conclusion of this hearing.

Now let me go back and ask the question one more time.

Mr. Sikorski has read to you a portion of the tape. Referring specifically to that portion of the tape which Mr. Sikorski has read to you, is any portion of that unfactual, altered, deceitful, or false?

Mr. **MacDonald**. I don't know?

Mr. **Dingell**. You don't know? So you cannot make any allegation as to the truth or the falsity of that portion of the tape?

Mr. **MacDonald**. No, because I believe something is missing.

Mr. **Dingell**. The Chair recognizes the gentleman from Minnesota.

Mr. **Sikorski**. Mr. MacDonald, I have read to you long segments of full conversations, direct evidence corroborated by witnesses and denied by no one, on the issue of schedules.

Now I understand you want to talk about cost and those issues. And we can get into that discussion as well. That was part of your press release as well. It was part of the Navy's press release that started the stock sliding.

But I am focusing on schedules for this moment. And in the schedule discussions, the one earlier in the day that was played and then read first, and then the conversation later in the day that was played and read second here today, you discuss at length, in context and, if you want, we will put in the record the whole transcript, which shows a much more lengthy discussion of schedules than we played for you here today.

Mr. **Dingell.** Mr. MacDonald, your objection to the entirety of the transcript will be inserted in the record at this point.

Mr. **Sikorski.** Thank you, Mr. Chairman.

Now, you put out a press release, or Mr. Johnson did, at your approval and Mr. Lewis' approval; is that not correct?

Mr. **MacDonald.** That's correct.

Mr. **Sikorski.** And in that press release, you discussed schedules, did you not?

Mr. **MacDonald.** In the last sentence of a 1½-page release.

Mr. **Sikorski.** You discussed schedules. That information was not accurate at the time you put it out. You knew it, Mr. Lewis knew it, Mr. Veliotis knew it, and you are on tape proving it. That is a classic example of SEC violation. I think it is section 10(b)(5).

Mr. **MacDonald.** I violently disagree with you, Mr. Sikorski. Could I explain something?

Mr. **Sikorski.** Certainly, it is your time.

Mr. **MacDonald.** All right. At that time, Mr. Veliotis had been in that yard less than a month. The three individuals—the man who ran the yard, a man named Pierce, Norm Victor, who was the primary scheduler of the yard, and the Trident program manager, Ed Lindahl—all were still convinced when I left the yard less than a month before that, that was a reasonable schedule, except for the 10 weeks slip that had taken place between July and the time I left the yard.

They also, all three at that time, felt, when you were projecting out a couple of years in front of you for a job that had to be done, it was still realistic. Mr. Veliotis had been there less than a month, remember. He had not even begun to develop a new schedule, and said in that conversation that he told Admiral Bryan that he wouldn't have it for 3 months. He, in fact, didn't have it until the end of January.

Mr. **Sikorski.** Mr. MacDonald, you just said on tape, talking to Mr. Veliotis about having spoken to the Navy:

> I told them, I guess it was in July, that it was not going to be December 1978, it was going to be October of '79.
>
> Mr. **Veliotis.** Well, you told them about 1 year and 2 months too early.
>
> Mr. **MacDonald.** And they said "You are too optimistic," and I said "That's probably true, but that's all we are willing to go to now."
>
> Mr. **Veliotis.** Why are we willing to go on, on to that now? Why not tell them the truth from the beginning, when we all, everybody here, knew that it cannot be done before the end of 1980.

And Veliotis talks about the ship being only 35 percent complete, and you say, "Yes," and Mr. Veliotis says that "There are not going to be million man-hours; it's going to be 15 million." You say, "Yeah," and Mr. Veliotis says that "Lindahl is an optimist," and you say, "You are right." Then Veliotis says, "So anyway, I told * * * that doesn't bother me." You say, "No, that isn't the point. The point was, since that announcement hit the wire, we have already lost another 1½ points on the stock."

Then Veliotis tells your press person that the schedule is crazy. And you come on later on and say, "Dave wanted to go ahead anyway."

Mr. Veliotis Yeah, and I told him. Did he come back to tell you that those dates that you give there, they are not real?

Mr. MacDonald. Yes.

Mr. Veliotis. He told you that.

Mr. MacDonald. Yes.

Mr. Veliotis. But you still want to put it out, still want do it?

Mr. MacDonald. Yes. Dave wanted to go ahead anyway.

Later on, Veliotis says:

April 80? It's not real.

Mr. MacDonald. And, uh, we understand that, too.

And, you are under oath, Mr. MacDonald:

And Dave understands that, but he wanted to go ahead only to stop our stock from sliding.

Mr. Veliotis. We have at some time, we have to tell the people the truth, you know.

Mr. MacDonald. I know it.

Mr. Veliotis. At some time we have to come out and say what the delivery is, and I don't know what the stock will do at that time, but we have to do it.

Mr. MacDonald, evidently you still don't think it's time to tell the truth.

Mr. MacDonald. Mr. Sikorski, may I address that last comment you made?

Mr. Sikorski. Certainly. Mr. MacDonald.

Mr. MacDonald. Mr. Veliotis had been at the yard less than a month. He admitted that he did not have the schedule. He thought the schedule was optimistic. My accepting his comment was not that I agreed with his schedule, but there was a 10-week slip of the schedule in my hands.

If you think it is appropriate to put out a schedule because somebody thinks we ought to be arbitrary and put it out, that would be the dumbest thing we could ever do to the public and the Defense Department. We tried to do everything we could to keep them well advised.

Mr. Dingell. You had a completion date, did you not?

Mr. MacDonald. We had a completion date.

Mr. Dingell. And what was the real date, and what was the completion date at the time of this discussion?

Mr. MacDonald. The formal document that had been given to the Navy prior to the time I left the yard, August 1977—I believe it was October 1979. The Navy in their release—and we acknowledged it in our release—felt it was going to be 6 months later than that.

I had, before I left the yard—there was in Veliotis' hands a letter from Norm Victor that said in his judgment, we had slipped 10 weeks on a 2½ year schedule, which they felt could be made up, but I didn't argue with that.

Mr. **Dingell**. All right. Now, I want you, Mr. MacDonald, to please tell the committee of any inaccuracies in the transcript of the discussion as read by Mr. Sikorski.

Mr. **MacDonald**. Mr. Chairman, I thought I tried my best to answer. I don't believe in my own judgment that that's whole conversation, and I am only talking about schedule and costs together. So you don't take the slide of the stock relating to the schedule; it related to cost, and that is not in that tape.

Mr. **Dingell**. I want you to identify any specific defects insofar as truthfulness or alteration of that tape, in those portions which Mr. Sikorski has just read to you.

Mr. **MacDonald**. Well, that would be difficult, Mr. Chairman. When Justice played it for me several times——

Mr. **Sikorski**. Mr. MacDonald, do you know of any inaccuracies or alterations in that part of the tape that I just read to you or that was played to you?

Mr. **MacDonald**. When it was played for me——

Mr. **Sikorski**. Answer the question, Mr. MacDonald.

Mr. **MacDonald**. I'm trying to.

Mr. **Sikorski**. Do you know of any? You have made the allegation?

Mr. **MacDonald**. I can't prove that it's wrong because that is a copy of the tape. You have to have the original to prove it is wrong.

Mr. **Dingell**. Mr. MacDonald, you have made the allegation that you believe that the tape is not representative. As chairman of this committee, I am asking you to identify those portions of the tape which are incorrect or which are altered or which are not fairly representative of the discussion.

Mr. **MacDonald**. Would it be a fair question, Mr. Chairman, if I could have a copy of the tape, and I will submit it back for the record?

Mr. **Dingell**. Mr. Sikorski has just read—I am asking you that for the purpose of the record at this time. You have made a statement that it is not representative of the discussion. I am asking you to identify those portions at this time which are not representative of the discussion.

Mr. **MacDonald**. That is going to take me a long time, to sit down and listen to the tape and write it down. I couldn't give it to you verbatim.

Mr. **Dingell**. Mr. Sikorski has read you the portions. I am asking you to direct your attention to the readings of Mr. Sikorski to identify those portions which in your view are altered, untruthful, unfactual, or not a fair representation of the discussion. We will, of course, make the transcript available to you for such further allegations as you wish, but this is a hearing, you are here to testify; we assume that you were participating in that discussion and can identify those things at this particular time. The Chair is requesting that you do so.

We are trying to give you a fair opportunity to convince the committee with regard to the allegations you have made that this tape is tampered with or is altered or is not fairly representative. I am asking you to respond with regard to an identification of specific failures of this tape insofar as its truthfulness, factualness and insofar as representing the discussion alluded to.

Mr. MacDonald. Mr. Chairman, I understand I am under oath. I would be very foolish to sit here and give you some words that I thought ought to be in there if I could not go back hear the tape and read the transcript and fill it in and submit it for the record.

Mr. Dingell. We will, of course, afford you an additional opportunity, in conformity with the rules and good conscience, to make us a proper response on that particular point. I am asking you at this time, so that you have full opportunity to do so at this time, in view of your statements earlier.

Mr. MacDonald. That would be impossible for me to sit here and fill it in.

Mr. Sikorski. Mr. MacDonald, you made the allegation. We are asking you to back it up.

Mr. MacDonald. I made the allegation when I heard it from the Justice Department. I have not heard it again until today. I don't think I can sit here and fill in the words that I think were said.

Mr. Dingell. Let me ask you this question. Where were you when this discussion was taking place?

Mr. MacDonald. I was in St. Louis.

Mr. Dingell. Where in St. Louis?

Mr. MacDonald. In our office.

Mr. Dingell. In your offices in St. Louis. Where was Mr. Veliotis?

Mr. MacDonald. I believe he was at Electric Boat.

Mr. Dingell. He was at Electric Boat? Was he calling from the Electric Boat offices?

Mr. MacDonald. I assume he was——

Mr. Dingell. He was using a telephone at Electric Boat? Were you using a telephone?

Mr. MacDonald [continuing]. I assume he was; yes, he was.

Mr. Dingell. So he was taping it, then, from Electric Boat; is that correct?

Mr. MacDonald. I assume that, yes.

Mr. Dingell. Is it true that you had a tape machine in your office?

Mr. MacDonald. No; I did not.

Mr. Dingell. You did not?

Mr. MacDonald. No.

Mr. Dingell. He was not using your tape machine?

Mr. MacDonald. I have never had a tape machine.

Mr. Dingell. You have never had a tape machine?

Mr. MacDonald. There could have been one in the office, but it was a prior manager. I never even saw a tape recorder. There was a television set.

Mr. Sikorski. Mr. MacDonald, have you ever taped phone conversations with members of the corporation or anyone else, the Navy, the Department of Defense?

Mr. MacDonald. I did one conversation, and that was when I had an interview with a gentleman from the press. He was well aware of it, and it was on this very subject, and I told him to tape it or that I will not have the interview.

Mr. Sikorski. Would you supply the subcommittee with a copy of that tape, please?

Mr. MacDonald. Yes, sir.

[Testimony resumes on p. 171.]
[The transcript referred to follows:]

INTERVIEW, OCTOBER 12, 1984
PAT TYLER, R. DUESENBERG, F. BETTINGER,
G. E. MAC DONALD

P. Tyler: Hi, can you hold on one second, let me turn off this ____________ box, OK?

?? Right.

PT: Alright. Fred ...

F. Bettinger: Yeah, OK, you back?

R. Duesenberg: We're all here, Pat.

PT: Good, Hi, Bob, how are you?

RD: Just fine. Pat, we thought we would give you a call, since you indicated to Fred that a new story has been completed and presumably publication is imminent. We're not going to have an opportunity to meet personally with you, but we are willing to address some of these questions that you may have relative to the Trident delivery schedule. And we'll be happy to discuss those, and to tell you what in fact the facts at that time were. But let me also mention something here. There was a good deal of wailing and gnashing of teeth relative to your last article. And our real concern and the concern of the Chairman was that it was interpreted in a way that the article in effect was very maligning to him and to his reputation. Not that there wasn't a lot of underlying work and good investigation behind it. I think we all recognize that there was, and we recognize and appreciates that the interview we had with you and Bob Woodward here was a very exhaustive and extensive interview. Our concern was that much of the things which we had to say were positioned in the article so far after the initial paragraphs. And that when it comes to this Ashton tape and the gut of Lewis' comments, those comments were in effect gutted by separating of some of the com, some of the remarks which he made. Those remarks which pointed to and emphasized that the real essence of that telephone conversation, the so-called Ashton tape as it's characterized here, had to do with the insurance claims. And that Ashton himself was apparently going around, indicating that those insurance claims had no credibility or quality or merit at all. He wasn't a lawyer you know, Pat, and the company had indeed gotten opinions from outside counsel to support its own conclusion and work in the preparation of that claim before the claim itself was filed. It got these opinions from people who, from lawyers who are expert in Government contract work, including the preparation and the prosecuting of claims and it got these opinions from lawyers on the outside who had expertise, whose firms spent their time working in the marine insurance field. So, I do want to just reiterate that feeling here. But it does [illegible] hold any negative personal feelings in our minds with respect you or anything of that sort. It's just that we were absolutely shocked by some of the problems that the article created.

FB: Pat, one, I want to just add one thing at this point. We've really looked at the article, and we know all the work that went into it. And where we think we were very specifically treated unfairly that sent this article in a tilt against us, the one thing we can point at factually is where we introduced the Lewis quote, the one where he says, quote, but my real concern here is if we give him the gate today, which I think would be a good idea, except for this one factor, he's likely to run (a) to the Navy and (b) the newspaper or both," dot, dot, dot, closed quote. What we feel really was unfair and did kill us in that it takes from there about 7½ inches to pick up the rest of the quote.

which is the one that's in the *next* column that says, I think this could have an upsetting influence on what you mentioned yesterday, that he was throwing off on the quality of our insurance issue. We think the separation of that material is, really did *hurt* us, and it's *there* but you have to sort of get to it. And I guess I really wish that I had caught that immediately when you did call that day, to make that point, and I didn't. But we think that is the one very specific thing that just did destroy us on that article.

PT: Well, I appreciate your comment. I wanted to tell Bob Duesenberg that, you know, one of the reasons I left a phone message on his desk earlier this week was that after my call with, my conversation with Mr. Lewis last Friday night which was very distressing to me as a reporter who believed that you can do a difficult story in a fair way, was to call you as someone who has not only participated in a series of interviews we did, but also in that session with Mr. Lewis to ask you what Woodward asked Fred, and that is, you know, where d'd we, you know, what else could we have done, and I guess you're refining your belief of what you think ...

FB: Yeah, that's true, we are, we really have studied, and then we went back and read the tape all over again, and the transcript, and we do feel that very specific area and the separation of that (a) was, hurt us terribly, and (b) should have been up much higher in the story, that that would have helped maybe, that that would have cleared the air maybe already in the second or third draft.

PT: Well, let me just argue with that a little bit.

FB: OK.

PT: I appreciate your comments, I'm going to take another look at that. I'd just like to point out to you both, and something that I didn't point out to Mr. Lewis on the phone last Friday night because frankly I didn't want to be provocative, I wanted him to get it off his chest, because I knew, the part I felt, that part of his reaction was just ~~being~~ seeing the blizzard of print when he got back and the video tapes that the news showed that night, and the pick up of a carefully researched story, which is, and the pick up is often not as careful. And I point out to you that if you go back and look at that transcript again, that you'll see repeated references to Mr. Lewis' primary concern which seems to be directed at Arthur Andersen, and that his overall comment on that, in that recording is a concern that if Ashton thought talking about a big loss, if he started talking about we've been too optimistic on the cost of the 688, which goes right to the heart of the issue that we led that, summarized that story with was that there had been an analysis on the cost to complete by professional cost estimators back in April of 1981, and that was the big loss that everybody was worried about and that was the big loss that was addressed by Bill McCurdy's team that was, that Ashton was running around to people in the yard talking about, talking to people about, and that was the smoldering issue that kept coming up. And Mr. Lewis, I mean, I understand perfectly the point about the insurance claim. But when Mr. Lewis circled back to the Arthur Andersen question, you know, three or four times, well, it assumed ...

RD: Oops.

PT: That's my call waiting button. I'll just ignore it. He circled back three or four times to Arthur Andersen, which is the cost issue, and after all if the insurance issue had been so, so preeminent in everybody's mind there would have been no worry about Arthur Andersen. Yet the Chairman of the Board is clearly worried about Arthur Andersen. And the big loss. And he didn't want that issue to even arise of taking a loss. Now, I make that point because I let this thing slide for the last week because I knew Mr. Lewis was upset, my heart went out to him, you know, when someone tells you that they're family's had a horrible week and that they're just heartsick and I have a lot of respect for the man, I know he has a lot of integrity and I know, I've lived down in South Carolina for five years and went to school, I know from whence he comes, and what reputation means. And I understand that, and I react to that. But I, you know, I'm not gonna, I'm just not going to acknowledge that there was some paragraph down there, some quote that was broken in half that was the crucial issue here. That is, that what made this whole story unfair. That's just not the case, fellas, and I urge you to go back and look at that transcript.

RD: You know, Pat, for a person who listens to the taped conversation, I think what you're saying is an interpretation that's attainable. The problem is that you had the opportunity to talk to the man who was involved in the conversation, and he's explaining what the real context is that surrounds that. Now, you know, as we have all investigated it here and as people who know Veliotis reflect upon that tape, one can easily see that Veliotis took that conversation and did some manipulating with it, too. This again acknowledges that for a person who is not part of the company, who didn't know Veliotis, he can reach an interpretation of the tape as indeed you have. But both Arthur Andersen, as well as ourselves, have pointed out that the problem of cost overruns in 1981 was not a secret problem at the yard at all. The people were well aware of it; indeed, Arthur Andersen was well aware of it. The important events going on at that point in time were the preparation in early '81 of the claim, the filing of the claim, the negotiations related to that claim. But also related to all of the other serious negotiations going on with the Navy. Those in effect which were trying to get control of, smooth, and end the state of war that had existed on that, or at that yard for (what?) a couple of years period, I guess, or even more. And it was important that in this September, October time frame when those negotiations were pointing in the direction of coming to some fruition that an individual whose area of competence doesn't touch upon the topic and whose job responsibility didn't include the subject, not interject himself in any form, whatever the form, to upset those negotiations. And that's really what the factual context was then. And was explained, and I think it got positioned in the article well down the line. And out of that is what, is where the cause of the really very hard feelings and very unfortunate situations occurred. But I understand, too, what you're saying. At any rate, ...

PT: Point well taken. And I, we will go back, we're trying to examine, we don't, you know, we just don't like this to happen ...

SD: Of course.

PT: ... when we spend a lot of time and get that much cooperation to have someone feeling that the process wasn't fair at the end. I mean, you know, obviously we feel that we've done something wrong and we're examining what, you know, how we put this story together to figure it out if it was something that we can correct or if this is just the lay of the cards that's he's reacting to and that we'll have to disagree with.

RD: OK, well, I guess we hit Trident delivery schedule.

PT: Well, let me ask you this question, gentlemen, about format. I would like that by playing this series of conversations for you that you haven't heard it, and as a courtesy I'd like you to hear it, and it doesn't take that long, and it will take me about 2 minutes to get ready to do it, and I'd like to touch base with Woodward and tell him that that's the plan and see if he wants to join this conversation, I think I can get him on the line, too. Would that be objectionable?

RD: Yeah, it would, Pat. We don't want to, we don't want to listen to the tape at this point in time. There may be a time down the road when we'll be agreeable with you to do that. But it isn't now, and it's not going to be for some time. We have no problems with your asking questions which are related to the tape, or questions which come to your mind by reason of *your* listening to the tape. But we don't want to hear the tape. We don't want to do anything in this conversation that in any way addresses or leads to its, leads to authentication of that tape. Before we have any interview of that kind, we're going to have much more analysis to undergo. So, we're willing to talk about the facts of the Navy conference on November 29, 1977, and our concern with that. And how the Trident delivery issue relates to that subject. But we don't want you to play the tape for us by the telephone here.

PT: Uh, Bob, that's your call. I just, can you give me a reason why you wouldu't want to hear a tape that we're going to write about?

RD: Well, I can tell you that I have some reasons which I just can't disclose to you now. But in any event, before we hear the tape at all, we would want to do some additional analyses with respect to it. Those may be technical. They may be other than technical. But we have reasons now that we do not want to be on the end of the line in which that thing is played.

PT: Can you tell me if you have any reason to believe that the tape is not authentic?

RD: We have a lot of reasons to believe that. But I'm just not at liberty to talk about that.

PT: Huh?

RD: We have a lot of reasons to believe that. But remember, Pat, we haven't heard the tape. We haven't seen the tape. We don't know if the so-called nine or eleven conversations depending upon which article one reads are all part of the same tape. We just don't know any of those answers. And consequently, we don't want to hear the tape now and be pressed to the point of commenting on any of those issues. We don't want to be in a position to do anything at this time that might have the effect of being construed as a step toward authentication of that tape. But we are willing to address questions realtive to the Trident delivery schedule, relative to the Navy press conference of November 29, and what the situation in fact was at the yard, our concerns over that press conference, the questions which come to your mind as a result of your playing the tape to yourself or working with a transcript of the tape that you prepared for yourself at this time. We'll be happy to do that.

PT: OK. I just want to make clear, Bob, that I, that the offer is there for the, to play this, the comment, as you know, some of the comments from this tape have been published now since the 26th of September. And I'm sure that Mr. MacDonald has had some time to reflect with his memory about what, putting this in context. And I'm a little nonplussed at the notion that irrespective of whether you have some questions about authenticity that you wouldn't want to hear it. But, I'm prepared to go ahead if, you know, my search for the truth here is based on the assumption that there's no serious question about the authenticity of the tape, I am very interested and would ask you to reconsider any declination on your part to not pass along whatever you have that forms basis for some notions that the tape is not authentic. And you know, I thought one of the purposes of this would be to play it so that for one, Mr. MacDonald could hear the voices on the tape and say one of them, you know, that's my voice. And it appears to me that that's a step you might want to take irrespective of whether you had some other questions about how the recordings were made and what sequence, or anything else.

RD: I'll tell you what, Pat, I'll make you the promise that when the time is right for me to disclose the reasons behind what we're saying here, I'll tell you about them. But that's likely not going to be for several weeks, and I'm absolutely positive at that point in time, that you will understand the position taken today.

PT: Uh huh. Do you, well, what Mr. MacDonald has read in the newspaper about the statements that were reported in the St. Louis Post Dispatch, does he have any cause to believe that that conversation, those comments, were not made?

RD: Pat, ...

PT: (unintelligible)

RD: Pardon me?

PT: Does he have any cause to believe from what he read about those statements that they were fabricated somehow electronically?

RD: Pat, I don't want to answer that question, but whether they are fabricated or not, whether they represent the right voices or not, we're perfectly willing to address the issues or the facts which the Post Dispatch in fact published in their articles. We are perfectly willing to ...

PT: Well, just for your input, since I want to contribute to your search for the authenticating, you know, processing of this thing, is that I played a portion of the taped conversation with Admiral Bryan and after hearing that he said he had absolutely no questions about the authenticity of it, you might put that into your calculus. If I could ...

RD: As one of the conversations with Admiral Bryan?

PT: Yes sir.

RD: OK, well, he'd be able to address that issue with an opinion, no doubt about that. I don't suppose he's competent to address the other conversations or the other voices, though.

PT: Well, I didn't play it for him.

RD: Well, OK. Pat, I'll assure you, you'll understand our position.

PT: I also played this for Secretary Hidalgo, who knows several of the gentlemen whose voices were recorded on that tape, he had no question about its authenticity. I didn't ask him for an expert opinion, but he knows and has talked to Mr. MacDonald many times on the phone. And Admiral

Bryan, as well, and others.

RD: OK.

PT: I just give you that for your input.

RD: Pat, that's fair enough, Pat.

PT: Now, if I could take 30 seconds, because I have to grab the one folder and get a note pad, and then I'll be ready to start. Can you give me that?

RD: Yep.

FB: Sure thing.

PT: Thanks, I'm going to put you on hold.

* * * * * * * * *

PT: Hello.

RD: Hello, Pat.

PT: If I could just start with ...

RD: Pat, are you on a speaker now?

PT: No sir, I'm on my phone.

RD: OK. Your voice is much lower ? than it was before.

FB: Let me turn this up a little. Maybe it's ours. Can you hear us OK, Pat?

PT: How does this sound?

RD: It's still a little lower, but, OK, we can hear you.

PT: I changed from a unit in phone to a Ma Bell phone.

(general laughter)

PT: It's not as good, I guess. If I could just start with the ... I have now received, thanks to Fred, a transcript of the November 29th press conference. I've also talked to Tom ~~[illegible]~~ Ross, who was Assistant Secretary for Public Affairs at the time who told me the background of the genesis of that particular briefing, been prompted by the questions the previous week about Trident schedule and the cost status and he took the question and the following Tuesday asked Admiral Hall and Admiral Keln to come down and take some questions. I guess, Mr. MacDonald, if I could ask you, I just, first of all, I gather that you felt that the information that Admiral Hall dispensed in that press conference was subject to some misinterpretation in the press reports that emanated from it.

G. MacDonald: Well, actually, Pat, maybe it would be easier, and I'll direct an answer to that question right away. Maybe I could just give you a little bit of chronology on what happened.

PT: That'd be fine.

GEM: OK. On the 29th of November 1977, when the Navy held that press conference, the AP and the UPI came out with a couple stories that were completely wrong and misleading, in our judgement. And we thought it did a heck of a lot of damage to us. I don't know whether you've got copies of those two, but just one for instance, in the UP, no, the AP, "the Admiral's responsible for the Trident program, the Pentagon's biggest, blame the cost overrun in delay on problem encountered by the contractor, Electric Boat Division of General Dynamics."

Well, that's hell of a comment to hit the paper, I mean the wire, with and it was picked up by many of the major newspapers across the country, including the Wall Street Journal and the Washington Post, the New York Times, the Chicago Tribune, the LA Times, and the Dallas Herald.

FB: And let me just interrupt here, because I don't think, Pat, that I sent you, because we kept looking to determine when did we really first find out about the confusion spread in the conference, and it's very clear that what alerted the company was the AP. The first thing that really happened were the AP and UPI stores, which I believe I did not send to you. And I think they are very key in this. Because they rang the bell. They were the thing that caused the great concern. And that's what then the process then to determine, you know, the subsequent pick up of all of it is very clear and I've sent that material to you. But on the 29th in the afternoon, it was the AP and it was the UPI story that caused the concern. And I think for the record, I will be happy to send you those.

PT: I think my [illegible] ~~[illegible] in~~ the search of the time period kicked those out.

FB: Oh, did they? OK.

GEM: Then to go on ...

PT: Is the biggest offense, Mr. MacDonald, that the press reports were attributing all of the responsibility for the overruns to Electric Boat?

GEM: No. That was one part of it. Another part had to do with the fact that they said the schedule had slipped a year and that there was a 4 hundred million dollar overrun on Trident.

10/14/[illegible]
[illegible]
FO

PT: Right.

GEM: And when you read the UPI and the AP and then the stories that came out in the paper and add that on top of the problems that we were going through on the 688, it was a heck of a blow to us. And I had only been out of that yard one month at the time this press conference was held. So, after I guess boiling over with Lewis and I both, we tried to put together some kind of a release that would clarify the thing, at which time Frank Johnson called Veliotis and this, by the way, is not listed in the Post Dispatch, I'm talking the first call.

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PT: It's listed on the tape.

GEM: Uh huh. And then Veliotis of course didn't agree at all and then I had talked to Veliotis and tried to explain to him that there was a schedule that had been prepared by two of the senior executives at Electric Boat responsible for the schedule and the program, and that provided for delivery two years hence. And he had been at the yard for approximately one month, and that there was no way that he could come up with a detailed schedule with any kind of merit because that process takes a minimum of three and probably four months to really go through something that would make sense. And I had told Veliotis that I thought coming up with an arbitrary schedule would be too self-serving for he, Veliotis. And that two of the senior people in that yard one month earlier had assured me they were satisfied that we had a proper schedule, and it could be met.

PT: Was that Mr. Lindal and Mr. Foley?

GEM: Well, actually there were three of them, Foley, Lindal and Victor, Norm Victor. Norm said we slipped a few weeks, but when you look at a two-year schedule, and you're off a few weeks, I mean,

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hell, that's peanuts, when you consider later on all of the events that happened, GFE problems, the weld problems, the impact of the 688 on the Trident, and so forth. And that it was my judgement that we had a realistic schedule based on the support or back-up of the three individuals I mentioned to you. Now, Veliotis, of course, no matter who, no matter who might be mentioned on my part, would definitely say, well, these guys aren't worth a darn anyway, different words than that, but that would be the essence of his conversation. Because he didn't like anyone in that yard. He thought they were tied to ~~McDonnell's~~ McDonald's people instead of General Dynamics people. He had some very sincere people there that just in my judgement he was trying to overturn for self-serving reasons. And we then did put together the final press release which I assume you have a copy of, Pat, which talks about the overrun, talks about the schedule, and just to make sure that we put everything out so the world would know it, we put out our comment reconfirming the schedule for two years hence and also the fact that the Navy thought the schedule was 2½ years hence. That is in the last paragraph of our press release. Then when Frank Johnson called Veliotis back to read him the final version of it, of course he was unhappy with that part. And I again talked to Veliotis again and assured him that there was no way that he could come up with anything that had any foundation to it at all in a period of this one month. And that's about the way I see the thing.

PT: Uh, let me just start by saying that the conversations that are on this tape recording, Mr. MacDonald, are, there are 3 with you that are relevant. And I would just say for your benefit, Bob Duesenburg, since you're looking into this, that these don't appear to be fragments. You know, unless there is an electronic wizardry that's going on here that's beyond my comprehension, these appear to be whole conversations between Mr. MacDonald and Mr. Veliotis, the three of them. One of them is 2 PM on November 29th; one of them is 2:30 PM on November 29th, and one of them, one of them at, around 4 PM on November 30th. The, Mr. MacDonald, this is for your benefit, as a preface to my question, there is a section on here in which you have called, in this first conversation, have called Mr. Veliotis about, a few minutes before an Executive Committee Meeting at the Board of Directors, and I've checked the minutes of those

[illegible]

meetings as I have obtained them and there was such a meeting on the afternoon of November 29th, 1977. And you read to him what was on the Dow Jones wire, which may have been, similar to what was in the AG and GI report.

GEM: Right.

PT: And he questioned you about who put that out, and you tell him the Navy and he says, we have no report on the Trident ourselves until I conclude my studies, and I think we should call up Admiral Hall and give him some shit. But don't give him any dates. And you say you'll do that. And the next call is you calling back, and saying you couldn't get Admiral Hall, but you got hold of Admiral Bryan. And that Bryan said, and Bryan tells me this, you know, when I interviewed him, that the reporters got some of the information wrong, they misunderstood what is called I gather the IOC date, which is a delivery date, and that there is a discrepancy there. And then you kind of give Veliotis the background, what the dates have been, while you're there, that the best efforts scheduled that the company agreed to when they signed the contract was December '78, and his reaction to that is, well, the Navy knows and we know that it won't be before the end of '80. And then you say, well, I told them I guess it was in July that it was not going to be December '78, it was going to be October '79, and Veliotis, well you told them about a year and two months too early. And MacDonald says, well, they told me I was too optimistic and I said, that's probably true, but that's all we're willing to go to now. And Veliotis says, well, why not tell them the truth from the beginning? Why are we willing to do that when everybody here knew it cannot be done before the end of '80. And you ask in somewhat incredulous tone, everybody up there says that? And he says, everybody. There's a letter they have sent to you, copy ot Lindell, that fellow Norman Victor, they've said they've told you it won't be before the end of '80. Now, irrespective of whether you are commenting on whether this tape is authentic, do you remember such a letter, Mr. MacDonald, or do you know what that refers to?

(5/14/80) should we check this? FB

GEM: No. As a matter of fact, I'm not familiar with it. Doesn't mean I haven't seen it, but as I mentioned to you earlier, Pat, just before I left, I had the reports from Lindal and Victor that, as well as Foley, but the Lindal said all we need to do is man the boats properly and we can meet that two year schedule. Now he's the program manager.

PT: Right.

GEM: And the one that is really the guy responsible to interface with the Navy. And on anything to do with Trident. And Foley's the guy's that down in the yard building the ship; and Victor felt we were not sufficiently manning the boats and that by the time I left, I don't know whether it was 8 or 10 weeks, could be a problem, slippage, but looking at 8 or 10 weeks as I said in a 2 year schedule is not insurmountable. It is something that can be handled if we man the boats the way we ought to. And remember that the Navy said that, no they didn't agree with the 2 year period, they thought it was 2½ years, and I don't know how many hundred people the Navy had at the yard all the time I was there, as well as when Takis was there. But they are hundreds, they're not just a few. And for every man we had, they had many overseeing us. And this is all parts of the Navy, not just the NAVSEA but the deal with Rickover's people.

PT: Well, when you say Mr. Lindal gave you an estimate based on, you know, manning the boat, do you recall whether he was talking about manning the boat with 3,750 people and whether, as Mr. Veliotis says in this conversation, that was an unrealistic thing to do and you could never put that many people on a boat?

GEM: I'm not sure about the two thousand seven hundred and fifty, but that is a bit misleading. All two thousand seven hundred and fifty people would not have to be on the boat at the same time anyway. 'Cause a lot of your subsystems are being done in different parts of the yard and it's not a matter of putting that many people on the hull itself, 'cause we were far from in a position to do that. The missile tubes themselves were not even there completely; they were just starting to land them, if I remember right. And the, at that point the reactor compartment, I don't think that was even in the yard, let alone anywhere near the boat. So when you talk about that many people, if you had to put two thousand seven hundred and fifty people on that hull, there's no question you'd be crawling all over each other. But that's not a fact. I think Takis, this is just part of his whole Pearl Harbor bit, the way he used words.

PT: Well he, after, I just point out that on this thing he says, you know, Lindal, he's an optimistic so-and-so. And he was going to man the ship with twenty-seven hundred fifty people, he must be an idiot, I told him so, he now realizes he can't do that, so the ship isn't 40 percent complete, it's 35 percent complete, and the manhours aren't going to be 12 million, they're going to be 15 million, and Lindal is the optimist, you know he'll do it with blood and sweat and how many times has he made good on his promises to you? Never. And you say, you're right. And then he says, oh, anyway, and you say, according to this, the point was that since that announcement hit the wire, we've already lost another one and a half points on the stock. And then you point out that if the Navy put that out inappropriately, and then Veliotis comes out in February or March after he's finished his study, and slipped it another year, then you say it's going to look like in the press at that time that's it's another year's slip on top of the one the Navy just announced as if, you know, compounding the problem.

GEM: Well, Pat, let me just take that part. There's no way that Takis after one month in the yard going through all the crap he claims he went through could come up with his own independent schedule. There's just no way. He proved that when in ...

(End of Tape #1)

P. Tyler: A long conversation, this would be the third conversation that is on this tape as it is, as it has been provided to us. The brunt of that the burden of that conversation is Admiral Bryan, I believe he had made a request to you Mr. MacDonald to, ah let's find out what the schedules are, and he, Admiral Bryan had told me in an interview that that was a great burden questioned after Veliotis took over. And Mr. Veliotis had gone to Admiral Bryan here that, that ah, he has an idea what the schedules are going to be but he hasn't developed them carefully yet, and it's a question of ______ machinery that he knows the story, and that he has promised his master, Dave Lewis that 90 days from the day we went there he will present him with the whole story. And so that brings us to the end of January and so he said, or the beginning of February, so he says "I will come to you then and lay my cards on the table, is that alright." And Admiral Bryan says "That's alright." And that's basically that conversation. Now there is a follow-up conversation somewhere that Admiral Bryan's aid, very short one, that just wanted to confirm what he said, because Admiral Bryan was meeting with one of the Congressional Delegations and was going to deliver this message, was going to reitrate what Veliotis had told him. The next conversation in this sequence, the fifth one is dated November 30 at 2:10 pm, between Frank Johnson and Veliotis. And on this, in this sequence Mr. Johnson reads the entire press release that has been prepared for, to go out that day, I believe at 3 pm, and he reads a few pages, you know, it's the same copy I _______ for you Fred, breaks down the responsibilities for $400 million, 20% design contract, 18% government equipment, 33% escalation, 28% Navy estimate of the submarine construction cost increases as EB. And in the last paragraph with regard to the schedules General Dynamics has advised the Navy that a special cruise ship is being delivered in October '79 and the Navy believes the delivery date of April '80 is more likely, and will work actively and more agressively, and so on. Veliotis immediately challenges that he said "I don't know where you got those deliveries there not mine," and there's back and forth with Johnson and he says, Veliotis tells Johnson "I know there going to be later than what you are saying." And Johnson says "Is it going to be later than what the Navy is saying," and Veliotis said "Yes it will." And Veliotis says, you know, I don't know what you mean by OK, but the way you are putting that out it gives the impression that we are going to meet an

April 1980 delivery. And he said "I don't know that." And he wants Johnson to tell this to Mr. Lewis and Mr. Johnson says that he will. And then Veliotis makes out like it would be his proposal of how he would have handled this press release and he said "I would have said about deliveries, that we have advised the Navy that we're working to establish the best possible delivery and will advise them sometime in January or February, because that's what I told Admiral Brya and I think that's what we ought to put out. Johnson said he says he will go back and tell Mr. Lewis that and other incendentals and, the next conversation is the third one with you Mr. MacDonald and is, it dated by the fact that it says that it's about an hour after the press release has gone out and that Joe Thomas should have a copy of it by DataFax from Al Spivak any minute, and Veliotis says "yes your fellow Frank who read me the release" and Veliotis says "Yeah, and told _____ to come back and tell you that there are dates there they are not real." And you said yes, and he said "he told you that" and you say "yes" but he said "but you still want to do it?" and you say, well they want to go ahead anyway, and the other thing is if you start talking about what Secretary Hidalgo was doing with the Navy release and, _______ said I talked to Admiral Bryan and I told him that he is going to let him know, let him know later what the deliveries are going to be. And he says "I, what your are saying is that press we're giving the impression to people that we're going to deliver the shipment April 1980, and there is no chance of doing that." And then, this is that quote that St. Louis Post-Dispatch added a word to it that's not on the recording, as I heard it, we understand that, Dave understands that, but we wanted to go ahead only to stop on stock _______ and _______ was saying, well we have to tell sometime, sometime tell the people the truth, you know, he said "I know it" and sometime we have to come out and say what the delivery is I don't know how the stock will do but we have to do it, and may be right, but at that ________ and what ever time you come up with have it then, and there goes the recording, then say it's due to background noise.

G. MacDonald: Well, keep this in mind, when I said "yes, we understand that" Dave understands that too, but he wants to go ahead what he wants to do is he wants to go ahead with the whole press release because we do have a detailed schedule again back to this point of the three top guys in that yard saying that it's a good schedule. And I guess if I would put a 100 different words in it would be easier for someone to understand that is not familiar with

(CONTINUED ON BACK-UP TAPE)

(BACK-UP TAPE)

G. MacDonald: ...put a hundred different words in it would be easier for someone to understand that's not familiar with it, but there's so much, Pat, that Takis and I knew on the subject we were on, you just don't repeat the words over and over. And when I would say to him as I had before, "But Takis, I've told you, we have a schedule, you don't have anything better, three of the top guys, or two I guess I said, think that it's a good schedule and it can be met. Regardless of what he thinks of those two guys, for us to come out and say we don't know anything and we won't know for another three months, would be dumb because he had been there thirty days and the three guys I'm referring to had been there for years and years. And they're the three top guys in that yard. These words are just completely out of context. But the confusion that we would cause the Navy as well as the public by saying that we don't know would have been wrong. Cause the three top guys say it's a good schedule and we can meet it. That kind of a thing, I mean, hell...

P. Tyler: I understand what you're saying. Let me just, I think the only relevant question is this, and I'd like to formulate it so that you can understand what it is, and that I formulate it correctly. It's that, do you believe that having sent Mr. Veliotis there as the Company shipbuilding expert, and having spent five months of studying the yard, ________________ acquainted with what I understand what are called the Victor Schedules of 1976 that were prepared for the _______, having interviewed everyone at the yard and applied his own extensive experience in the shipbuilding business and after 30 days and after five months of study, that when he tells you that I may not have a schedule but the date you're putting out is wrong, and that I urge you to at least amend it to say that we told the Navy October '79 and the Navy said April '80, and the fact is we are reevaluating these schedules and will come out later. Now, wouldn't that have been a more straightforward way of dealing with the public on this? In fact, that Mr. Veliotis' prediction turned out to be true and in February the schedule was slipped to November 1980.

GEM: I don't agree with that at all, Pat, and let me tell you why. During the five months or so, I don't think it was five months, it was less than that. But during three or four months prior to the time he actually took over the yard, I had the key people at Electric Boat, every week and every month, send every schedule to him, every report, that was put out by the yard except to where they were classified. Now remember, he had not been cleared by the NRC yet, Nuclear Regulatory Commission...

PT: ...schedules or is that ____ clearance for nuclear material or nuclear propulsion...

GEM: That's right. Now I'm not sure to what degree he got schedules. I was just going to add that. But I gave him everything. He got the same input I was getting from Victor and Foley and Ed Lindel, he was getting. Even if it was a verbal discussion. He chose, as best I understand from what he's told me, that he primarily concentrated on organization. As I was up at Quincy a couple of times a month, and he took me into this locked room he had where he had the organization of the whole yard of Electric Boat on the wall, and he was going through the organizational structure, and he primarily concentrated on that because when he first took over there was a big deal made about all these people that he laid off. And that's what he was preparing for. And I was convinced, and I told Lewis that, "Dave, I talked to Foley and I talked to Lindel, and I talked to Victor. I don't know if it was the last day, if it wasn't it was two days before I left that yard, and said, "How do you feel about the schedule, are we still allright and can we still make it?" And the answer was yes. Victor's only question was, we slipped eight or ten weeks as I told you earlier, and I told Dave, for us to come out with some kind of a self-serving schedule, which was what Veliotis wanted to make the yard look like it was more screwed up, I screwed up the yard more, cause he was after me, and, I think would be dumb. If we knew that those three guys or any one of the three said no, it's a year later. I mean hell, I'd have been the first one to tell Dave. Let's put out something that says the schedule's challengable. But I didn't get that from anybody. And Veliotis, without question in my mind, was after anything he could to degrade me. He did that in the newspapers just the way he put out stories up there.

PT: So, (a) you think there was nothing misleading about going ahead and reiterating that date and that (b) that it was supported both by the ____________ ____________ in the yard and Veliotis' apprehensions about the date should be colored by the fact that there was somewhat, bureaucratic I guess is the best word, or some other word like that, rivalry or tension between the two of you, him ______________ and hating you and starting from scratch because you know the yard.

GEM: Right, I, let me just address one point I'd like to mention. I think I mentioned this to you when I talked to you once before.

PT: I think this is the first time we've talked.

GEM: Oh, okay. Veliotis, for a period of about eight or nine months, worked for me. Both yards were put under me in July 1975 until May of 1976. This was a big blow to Takis. He did not want to report to anyone except Lewis. Little did I realize at that time that he had a real hard on for me. Nothing ever came about in that regard until, oh hell I can't remember the date. We had a meeting with the Burmah Oil people, because Takis was in the middle of a fight in the LNG programs at Quincy with the New York representatives from Burmah Oil. Stanley Wilson, who was the Managing Director of Burmah Oil, located in England, called up Lewis and said, "Dave, we gotta put this fight to bed. I'm going to fly over to Quincy tonight. Would you or your representative please attend the meeting with

Veliotis, this, I can't remember the man's name from New York tha' Takis was fighting with...

PT: ___________ McMillan?

GEM: No, no, this was a young fella, young Englishman, oh, no not McMillan. Oh I'll think of the name. And make sure that we can resolve the problems we have in the LNG program without a fight. So Dave said okay, I'm going to send Gorden up. I knew Stanley Wilson so he knew who I was. And we'll also have Max Golden there. So we had the meeting. The meeting couldn't have been going more than five minutes and Takis and this young fella that ran the New York Office of Burmah, got into a hell of an arguement. And I stopped Takis and told him to knock it off, we're here to resolve our problems without any kind of a big argument. He was quiet for a few minutes and then he popped off again. Then I adjourned the meeting for a few minutes, took Takis outside of the office and said, now either you're going to keep your mouth shut and quit fighting or you're not going to finish up in this meeting. We went back into the meeting, he was quiet again for quite a while and then he popped off again. This meeting by the way lasted something like twelve hours. And I had to shut him up again, and I told Takis one more time and that's it. So anyway, we went ahead, resolved our problems with Burmah, ended the meeting, I came home. Max Golden stayed over, came back and said, on Monday morning, I think this was a Saturday we had the meeting, and said, boy you've got a real problem, a real enemy, he put it. And I said, well what do you mean. He said you just killed Takis in that meeting as far as he's concerned and you've got a bitter enemy. And I said well Max, do you think I did wrong? And he said no, you did everything you had to do, and that's what Lewis told you to do. But he says, you've got an enemy. And Max today would recall that meeting without any question at all. And from that point on I don't think Takis and I ever had civil conversation. I would go to see Takis twice a month at Quincy to tell him what was going on at Electric Boat and try to get some help out of him or thoughts out of him, in what I could do and shouldn't do and so forth, and all I could get out of him was the idiot treatment.

PT: Well the tension is also apparent in news conversations.

GEM: Yes because, as I told you, he really screwed me in the press and with those Electric Boat people the day he took over. And that was all intentional.

PT: Well, okay. I think I understand what you're, what the explanation is, and I think it puts it in better context, and I appreciate having it. I'd like to cover a couple of other points that on this recording that we're writing about. One of them is a short ___________ conversation fragment between Mr. Veliotis and, well, I should start in sequence. The first one is a recorded memorandum to himself, by Mr. Veliotis, about a conversation he had had with Mr. Ranenberg. _________________ Now, it's dated December 5, 1977, a Monday morning. He said, "I spoke with John Ranenberg. I questioned Mr. Ranenberg why they didn't use the Victor schedule on the _____________ in lieu of the best possible delivery date schedules that were used, that they used, and Mr. Ranenberg, unqualified, told me that he was directed by Mr. MacDonald and Mr. Lewis. He also said that Mr. MacDonald's concern was the price of the stock. Had we gone with the Victor claim, the amount of the dollars would be much higher and therefore MacDonald was afraid that the stock would go down. This is to record my conversation with Mr. Ranenberg." Now, as I understand it Mr.

MacDonald, in 1976 Mr. Victor was tasked with the job of coming out with a definitive schedule to be used in the preparation of _________, and the filing of ________, and that those schedules called for delivery data, ______________ the 710 boat, the ______________ flight two ______ 1984, and that the claim, the schedule that was incorporated into the claim, pulled that back two years earlier and that the dollar impact of that telescoping of the schedule brought the amount of REA2 down from on the order of a billion dollars down to the $544 million. Could you respond to that?

GEM: Well first of all, I would have difficulty responding to the recording itself, or the memo to the file, or whatever it is, because I don't recall that. I do remember when we were agreeing on the schedule to be used that I was after the most realistic schedule and not an optimistic one nor a pessimistic one. Because this was a claim that was going to be put together, that was going to have to really have complete scrutiny by the Navy. And for us to put in a shorter schedule versus a longer one, the reverse would be true. The longer you stretch a schedule the more it's going to cost you. The shorter the schedule, the less support-type people you have, overhead type people, therefore, the number is going to be lower. And I kept saying to Victor, Ranenberg and Art Barton, that we want the most realistic schedule we can get. One that will stand up. And with their judgements, we decided on the schedule we used. But I don't remember the conversations such as the one you mentioned with Ranenberg, but I would like to mention one other thing. In addition to Veliotis firing Foley, he fired Ed Lindel, and he didn't fire Ranenberg, but he forced him to take early retirement.

PT: Well, would you, do you recall being concerned that if REA2 were on the order of a billion dollars that that would send the signal to the financial markets about how bad the over was, and affect the price of the stock?

GEM: No. No because we knew that we were looking at a substantial number anyway, and of course the claim that was filed in December, 1976 was $544 million, which I signed the claim and the certification on it. Hell, if that number had been a billion dollars I wouldn't have felt any different than I did with a half a billion. As long as we had the right number in there that we were entitled to.

PT: Okay. So you don't remember the conversation, you don't remember being, you weren't concerned at the time that that would have an effect on the stock if you filed a billion dollar claim.

GEM: Not at all. I think if we would have put a number out there that would have been 500 million dollars and it should have been a billion, then I would have been scared to death we really blew it.

PT: Is it your opinion that there would have been no difference in reaction in the financial market if the company filed a 500 million dollar claim than a billion dollar claim?

GEM: No, I don't think there would have been. Cause we did say, after filing the 544 million, that covered events up through September 1976 and we were in the process of preparing the next series of claims. That was a signal to the market that more was to come. And we wanted to make sure that was clear.

PT: Did you say in the fall of 1977, that the overrun was going to be greater than the claims would cover?

GEM: No. I just said there would be more claims for events after the cut off of the 544 million claim.

That claim of 544 million was, as I said up through some date in September of '76. Any events up to that date.

PT: Right.

GEM: But that we would be preparing a new claim for all the events after that date.

PT: Okay. There is another conversation between Mr. Veliotis and Max Golden in which Mr. Golden said, and this is a conversation fragment. It is dated Friday, December 9, 1977. And Mr. Golden starts off independent and in mid-sentence saying, "the very thing we discussed here you know, we don't want the ~~FDC~~ SEC to get it before we actually go public on this. And in effect, he's telling them you know, that our information may be contrary to what the hell we have published. And Gorden..." And then there's a brief break and then Veliotis says, makes a comment about giving shareholders the right information and Max Golden replied, "Yeah, you know, if while you're discussing this you say, for example, your overrun or your loss is 800 million or 1 billion, Jesus Christ, if you spend six months discussing it with the Navy or three months, well what about shareholders that buy and sell stock?"

And Veliotis says, "Yes, your friend MacDonald says to me again, we cannot do that. Look what's going to happen to our stock." And Max says, "Yeah." And Veliotis says, "He cannot say that. He has said that to people here. Ranenberg said to me, Mr. MacDonald didn't want to put the latest schedules in because he was worried about the price of the stock." And Max Golden says, "That's right." And Veliotis says, "How can you say a thing like that?" And Max Golden says, "I don't understand it." And in the middle of a sentence he fades out again. Now, this obviously is not a conversation with you, but it's about events that you're familiar with and it is apparent to see from this fragment and from talking to Mr. Golden this week, that there was concern in the company that in negotiating with the Navy in the fall of 1977, and you recall that ____________ meetings in September and in October, and an October meeting in which there was a discussion of threat to stand down, or stop work. And the ___________________ Board deliberations were going on and the company was facing substantial cash drains on the 688 program. And Mr. Golden reflects a concern here that telling the Navy at that time that the overrun is of the magnitude of 800 million to a billion, that the shareholders during those months were not told that. And I haven't searched the records thoroughly yet, I'm in the process of doing that. But from everything I can tell what the public knew at the time from the company was that if the company corrected a substantial portion of the REA2 there would be no loss.

GEM: Well, let me go back first of all and say I don't know anything about the conversation that Takis had with Max. You gotta be careful with some of the words, as I said before. We understand a lot of words, remember, that would not have to be said for us to understand each other. Remember Max was a good friend of mine and a good friend of Takis at that time. He's not going to say anything to Takis about, as a for instance, you're full of shit, Takis, Gorden didn't say that. He'd rather have Takis go ahead and talk because they were good friends. And Takis would play that so he'd be very careful not to get Takis mad at him about me, or me mad at him about Takis. But I don't know anything about that, but I could imagine a number greater than the 544 million in a conversation, because we knew when we submitted the 544 million there was going to be another big claim because the changes were still running in the tens of thousands, the last I heard I guess was 35,000 changes when I had testified, or something like that. And we knew there was going to be another claim. The Navy knew there was going to be another claim. The public knew there was going to be another claim. Anyone can put any size of a number on it and if, because remember we worked at a cutoff date of September '76, and we had planned that that claim would probably not be filed until summer or something like that of 1978. Fortunately, we negotiated a settlement before that happened. And I know, I don't know, I could have talked to Bryan, I could have talked to Rickover, I could have talked to anyone, and I would have, if they would have said well, are you going to have another big claim and I'd say hell yes. If they had said how big would it be, and I said I don't know, but it wouldn't surprise me if it was another half a billion dollars. It all depended on what the heck happened to the change processes that continued to come through from Newport News through the Navy to us.

PT: You said the public knew there was going to be another claim. Was that published anywhere in the fall of 1977 that you recall? By the company in otherwords?

GEM: I'm not sure. I think we can check back, but at the time we submitted the 544 million, it was in the newspaper that that covered changes up through September 1976.

PT: Oh I understand that. Certainly, that there was a cutoff date. Certainly.

GEM: So that has to mean that there was going to be another claim. Whether we put out a release on that, I'm not sure. We could check that.

PT: What is says here is that if you tell the Navy that your overrun or your loss is 800 million to a billion, what about the shareholders? They haven't been told that. And I guess it's, was that a legitimate concern at that time?

GEM: No, I don't think so because I don't think anyone had any idea at all of how much the value of the next claim would be.

PT: No, but I think you could put it into the framework that the Navy did. Correct me if I'm wrong, but when Mr. Hidalgo came in his strategy was to not deal with the way the format or contracts were at the time, but rather to determine what the loss was and then determine what the entitlement was, and then negotiate over the difference.

GEM: Okay, but that was later. It was in February, I believe, 1978 that Takis came up with his estimate to complete the first and second flights on the 688.

PT: I understand that.

GEM: That was the first time...

PT: That's when the number was published.

GEM: Yes.

PT: _______ million.

GEM: But prior to that, neither, no I shouldn't speak for Max Golden. I had no idea what the number was. I don't think anyone did. And that's why I said a minute ago if someone were to ask me what would the number be, I'd say it's going to be a big number for the next claim. But at that point no one knew.

PT: Yeah. Well, Secretary Hidalgo recalls getting a detailed financial briefing in the fall of 1977 from Mr. Lewis and from yourself.

GEM: Yes.

PT: Not only knew that the 544 million dollar claim for cost overrun reimbursement existed, but that there were other reimbursed costs, and he remembers the figure of 345 million and that there was a cash drain of unreimbursed costs of 15 million dollars a month. Now you add that up and you're over 900 million already, and I, you know I, he doesn't recall, Secretary Hidalgo doesn't recall being told a billion dollars, but he remembers those figures from the fall of 1977. So it appears that there was a concern that there was that whereas the Navy was being told that the loss was of that magnitude, ___________, the shareholders were not. And was there a contrast in your memory of what the Navy was being told and what the public was being told in the fall of 1977 and the magnitude of the potential loss?

GEM: I don't remember for sure. I was looking back. At the end of 1976, I believe Arthur Andersen first qualified their certificate to us., It's in the annual report. They also qualified it in 1977 because they knew that we were in the process of preparing a new claim. And there was no way that we could better definitize what the total picture was. We thought we did a pretty good job in both the '76 and the '77 and the '78 annual reports to say exactly what the situation was. Here, let me read from '77. This is Lewis' letter to the shareholders. Under 688. "While the Company has filed substantial claims against the Navy for price increases and is preparing additional large claims," the value of which we didn't have at that point, "it is clear that the situation is so complex that the Navy believes it cannot solve adequately under normal claims procedures." Now again, we didn't have a number at that point. All we knew, it was substantial because the claims or the changes continued to run at a very high level. And then what we did in the annual report, is we devoted three columns, which is a page and a half of the annual report, giving the whole history and present status of the whole 688 program. And I assume you have that Pat, and it talks about additional claims.

PT: Right.

GEM: Significant.

PT: Right. But was there a concern by company officials then, as is reflected by Mr. Golden's statements here, that the company might have an SEC problem because it was telling the Navy the magnitude of its loss was on the order of 800 million to a billion, and it was telling its shareholders that the company would have to collect substantially under REA2...

GEM: Well let me got...

PT: ...______________ that there would be additional claims.

GEM: Let me give you the words out of this, the annual report. This is the '77 annual report now. In this history and present status of the 688 deal where it's one and a half pages, these are the exact words: "By the end of February 1978, these 'unreimbursed expenditures' reached a total of more than 392 million, and have been increasing at the rate of 15 million dollars per month." Those are the exact words.

PT: Right. That's in the blue section of the '77 report?

GEM: Exactly, yes.

PT: Right.

GEM: So we were talking about the thing you just asked about. And that's where Hidalgo remembered these numbers from.

PT: Right. But if the, if Mr. Golden asked the question, if he'd been discussing with the Navy for six months or three months, and you say it was on December 9th, that the overrun or the loss is 800 million to a billion, now what were you, you weren't telling that to shareholders, were you, in any of the company's statements, for instance, in the second and third quarter or fourth quarter of 1977?

GEM: Well you said this was in December of 1977... You said in December of '77. There's no one that had a number, unless Takis was hiding it from us, that could be added to this estimate of completion, because he didn't complete his study until February '78. So I don't know how the heck we could be talking to the Navy or anyone else about that kind of a number other than the one that I just read to you out of the blue part, which we did give to the shareholders. And...

PT: ______ I'm sorry, go ahead.

GEM: Those numbers that we put in the blue portion of the annual report did in fact cover the unreimbursed expenditures at that point. We knew what that meant.

PT: Right. The report was published, what, in March or April of 1978?

GEM: March.

PT: Do you, are you familiar with, did you read a transcript of our interview out there with Mr. Lewis?

GEM: No, I did not, oh, wait a minute. I read one part of it is all. The only reason I haven't is I've got too many other things to read.

PT: I understand, I'm sure you...

GEM: I have not read the transcript is the best answer, I just saw a couple of pieces of it.

PT: Were you familiar with the allegation that Mr. Veliotis makes that was, that he supports with some documentation that he provided to us that he had cost and completion estimates on his desk on October 25, 1977, the second day after he was at the yard, from Mr. Barton, and from Mr. Wadlow and that those estimates of completion would have put the overrun at about 1.2 billion?

GEM: Uh, no I'm not familiar with that.

PT: Were you familiar with either of the cost to complete studies that were dated by Mr. Veliotis in October and again on two dates in December, that he provided to us? Did you ever see cost to complete reports, detailed reports, with those kind of dates on them?

GEM: No, the first one I saw after I left the yard was in February 1978. I had seen nothing, there was no communication with anyone in that yard. He would not permit anyone to talk to me. And I would never try to talk to them because I didn't want to get them fired.

PT: Yeah.

GEM: And I'm not aware of anything at all prior to February of '78.

PT: Are you familiar with the allegation that he has made to us and that we've repeated to Mr. Lewis that on the Friday before, in otherwords, I guess the Thursday or Friday before he took over, which would have been your last two days as General Manager, when he was in St. Louis for the last quarterly review that you would have given, that he told Mr. Lewis what the overrun would be based on his five months or three months or whatever that was, of study there? And that it would be over a billion dollars?

GEM: I'm not aware of that conversation. I just couldn't believe that he could come up with anything at that point.

PT: Excuse me?

GEM: I am not familiar with, I remember the quarterly review in St. Louis that you mention. I'm not aware that he had any kind of an estimate at that time. And if he had, and if I had heard about it, I would have told him he's crazier than hell. There's just no way he could have done it.

PT: Is there no way he could have got a figure that he thought was reliable from the cost engineering apparatus that had been at the yard on a continuing basis and was headed by Art Barton who had considerable experience at that?

GEM: Art Barton is not the type of an individual that would tell me at the, prior to my leaving the yard, that he'd given me a bad number. I think Art is probably as straightforward and as honest and sincere and dedicated an employee in this company. And no one at Electric Boat knew that I was leaving that yard until Friday, the twentieth I think it was, twenty-first. I called my staff in on Friday afternoon and told them that I was leaving that day and that Veliotis would be in on Monday morning. No one knew it. In Electric Boat. Takis knew it.

PT: Sure.

GEM: But for him to come up with a different estimate to complete...

PT: Well were you, I'm sorry, go ahead.

GEM: Allright. For Barton to come up with a, give him one set of numbers and give one to me, I just can't believe that.

PT: Well are you familiar with Mr. Barton's statement, and Mr. Duesenberg and Mr. Bettinger there can help me if I mischaracterize this, but that Mr. Barton had been instructions from you for some time prior to your leaving the yard, not to give a number?

GEM: I don't know anything about that.

PT: Were you not aware of his allegation that would surface because of a memorandum written by Bruce Browdy, that he was asked not to contribute to the cost estimates while you were at the yard?

GEM: No. When I took over at the yard, all the estimates were prepared by the operations people. While I was at the yard, I changed that so Barton could be the one to independently make their estimates.

PT: I'm sorry, I don't understand that. I was under the impression that cost and an organization called cost engineering was reported to the Controller of the division in the, was the organization that generated the estimate, the conclusion based on current performance trends.

GEM: When we put an estimate together for a new program or a new contract, Cost Engineering does the primary estimating, it's reviewed by the Director of Operations and his people. The hours. They're dollarized by Art Barton's people. When I took over the yard the estimates were made by the operating people, the manhours. Dollarizing the manhours and coming up with the material estimate was done by Barton. When I left the yard, the estimates were made by Art Barton, reviewed by the operating people, but they were Art Barton's manhours.

PT: Did you, ______ well,...

GEM: I'm saying that Art Barton...

PT: Did you ever tell Mr. Barton not to participate in generating a cost engineering estimate of completion?

GEM: No.

PT: Uh, okay.

GEM: Now wait a minute. Let me back up. Let me go to this deal when I said when I first took over the yard the manhour estimates were made by the operating people.

PT: Operating people. Are you talking about the Director of Operations and those who reported to him?

GEM: Yes, the guys in the yard themselves. The trade superintendents up through the Director of Operations. The estimates were made by them. When...

PT: And that overall process, was it not supervised by the Controller?

GEM: No, it was not. It was supervised by the, Curtis was the Assistant General Manager and he ran Operations. Joe Pierce at the time was General Manager, Mel Curtis was the Assistant General Manager in charge of Operations. He prepared those estimates. Manhours. And Barton reviewed those manhours without question, and dollarized them. When I took over the yard, that was the process. I don't know whether I might have said to him, look, the operating people are making the estimates Art, so let them do it. I could have said that, I don't know. But it was later that I wanted the Operating people out of the damn estimate and have Art do the estimating. Because I thought he had the expertise. I guess just the opposite of what you just asked me.

PT: I know it. No one has ever showed you a July 1976 memo written by Bruce Browdy of Arthur Andersen about what Art Barton told him about his participation in generating cost engineering numbers?

GEM: I don't remember seeing anything like that at all, Pat. I may have.

PT: Okay. Do you, Mr. MacDonald, I never had a chance to ask you this, it's just a clarification because Mr. Lewis wasn't sure. You were assigned that responsibility in July 1975 of supervising?

GEM: Both yards. Yes.

PT: And did that call for you to go to the yards?

GEM: Oh yes. I spent probably eighty percent of my time, no 60% of my time at Electric Boat and 30% at Quincy. 10% in St. Louis.

PT: Beginning in July 1975?

GEM: Yes.

PT: Were you familiar when you got there in July 1975 of an estimate that was in a memo from Mr. Wadlow to Mr. Barton that said that the loss, the cost overrun on Flights I and II could be as high as 940 million dollars?

GEM: No.

PT: You don't recall giving Art Barton any instructions not to participate in cost engineering estimates of completion?

GEM: That's why, what I tried to clarify. I may have said something like that when during the period both yards were under me, because they were being prepared by the operating people, and I wanted to find out how good they were. But it was not after I took over EB. It was when both yards were under me and we were trying to find out where we really were. We had an estimate from the operating people, and this is the one that I mentioned that was Mel Curtis, the Assistant General Manager of Operations and his people, had put together, cause that was their practice.

PT: Uh, I tell what I'd like to do at this point, is after having gone through now the sequence of conversations, especially the three that related primarily to you Mr. MacDonald, is whether you heard anything not about, I haven't played the tape for you, but heard anything about the statements that were made in sequence that leads you to believe that there is anything there to try?

GEM: I don't think I could even answer that Pat.

PT: Yeah. Do you remember the conversation?

GEM: I remember talking to Takis about the discussion on the Trident schedule, I just don't remember everything. I read the Post-Dispatch article and tried to piece together as best I remember it, the steps that took place from the time the Navy put out that unfortunate, or had that unfortunate press conference, up through the discussions.....

END OF OVERLAP TAPE

TAPE #3

(starting on Tape #3 after the overlap)

GEM: When I took over the yard, that was the process. I don't know whether I might have said to him, look, the operating people are making the estimates, Art, so let them do it. I could have said that, I don't know. But it was later that I wanted the operating people out of the damn estimate and have Art do the estimating, because I thought he had the expertise. I guess just the opposite of what you just asked me.

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PT: OK. Mr. MacDonald, I never had a chance to ask you this, just a clarification because Mr. Lewis wasn't sure. You were assigned that responsibility in July 1975 of supervising ...

GEM: Both yards.

PT: Did that call for you to go to the yards?

GEM: Oh yes, I spent probably eighty percent of my time, no, sixty percent of my time at Electric Boat and thirty percent at Quincy. Ten percent in St. Louis.

PT: That's beginning in July 1975.

GEM: Yes.

PT: Were you familiar when you got there in July 1975 of an estimate that was in a memo from Mr. Wadlow to Mr. Barton that said the losses or the cost overrun on Flight 1 and 2 could be as high as 940 ______ hours?

GEM: No.

PT: OK. You don't recall giving Art Barton any instructions not to participate in cost engineering estimates at completion?

GEM: That's why, what I tried to clarify. I may have said something like that during the period both yards were under me, because they were being prepared by the operating people and I wanted to find out how good they were. But it was not after I took over EB. It was when both yards were under me and we were trying to find out where we really were. We had an estimate from the operating people and this is the one I mentioned that was Mel Curtis, the Assistant General Manager of Operations, and his people, had put together because that was their practice.

PT: I tell you what I'd like to do at this point is to ask you having gone through the sequence of conversations especially the 3 that related primarily to you, Mr. MacDonald, whether you heard anything, not about, I haven't played the tape for you, but heard anything about the statements that were made in sequence that would lead you to believe that anything there is contrived.

GEM: I don't think I could even answer that, Pat.

PT: Yeah. Do you remember the conversation?

GEM: I remember talking to Takis about the discussion on the Trident schedule. I just don't remember everything, I read the Post Dispatch article and tried to piece together as best I remember it the steps that took place from the time that the Navy put out that unfortunate, or had that unfortunate press conference, up through the discussions that I'd had with Takis.

PT: Right. But you just said you'd recalled that Frank Johnson had talked to him before I went through that.

GEM: Right.

PT: And been involved with Admiral Bryan and Secretary Hidalgo that day. I'm just trying to determine whether you see any red flags in all of this. I mean, you've given me your explanation, it seems consistent with what the conversation was. I just don't see any red flags, and I wanted to see if you did.

GEM: No, the only red flag I can see is the, when I read the Post Dispatch and even with the discussion that we've had today, it's more obvious as time goes on how Takis was making some very self-serving phone calls and again, if you're not suspect of something, you don't have to go through a detailed discussion because there's enought of it that we both understand, Takis and I, to where you don't have to use all the words. You can cut a 15-minute conversation down to five minutes, or two minutes. If you and I are talking about a subject that we're both very familiar with, we could have a conversation that would cover a complete subject, let's say in five minutes. But if I'm talking to you and it's completely strange to you, I'm going to make a point of going through a heck of a lot more detail so you understand, or so I'd try to help you understand better. And some of these comments that have been in the Post Dispatch, they just to me look like they're very self-serving. I described to you the point in time when Takis got the hard on for me and I was cautioned of that by Max Golden, but hell, that was during the '75 to '76 time period when I was over both yards. So a lot of time went on when I took over EB.

PT: Yeah, he doesn't make any secret of the razzle that he felt between the two of you when he was with the company.

GEM: Yeah, he, the biggest blow to him was when I was put over him. That really was a blow. And, hell, I didn't even treat him as though he was a subordinate. I had enough respect for him to know he knew what the hell he was doing, or at least I thought he did.

PT: What do you think his motivation was for taping conversations in 1977?

GEM: The only thing I can figure is he knew he was dead with the Grand Jury, Frigitemp deal, I mean, excuse me, Frigitemp.

PT: Before he was even questioned by the bankruptcy referee?

RD: No.

GEM: He was going through that at the time and he had to have had something there that was a flag to him, has to be. Of course, it's unbelievable when you read what happened, I'm talking about the kickbacks and all that.

PT: Right.

RD: Pat, that guy began to steal, Veliotis almost immediately upon coming aboard began to set up the scheme by which he stole from this company. That's clear from the endictment that the government came out with in September of 1983, and it was fully supported by the testimony given at the Davis trial this past summer. So you know what the guy was doing was just carrying out his sordid criminal instincts by creating Pearl Harbor files that he made hopefully from his point of view, use some time down the line. Because as he's stealing this money, along with his colleague, Jim Gilliland, he has to have in mind that somewhere he may be caught and that's exactly what happened. Unfortunately, we learned about it too late.

PT: So you think his standing motivation in 1977 was just insurance against the day that was disclosed?

RD: I haven't any doubt in my mind about that. I think that man is the most corrupt individual ever put into that yard up there. And unfortunately, one of the most corrupt individuals whoever was given citizenship in this country. And it's just too bad that his character wasn't known beforehand.

PT: I appreciate the opportunity, Mr. MacDonald, let me say to you, because I haven't met you in person, that you would sit down and take your time, I know you're a busy man and go through this this morning. And I appreciate that. I think from some of the things I've heard you say about the history of the Veliotis, I'd love to have a chance to come out and smooge with you sometime about what your own thoughts are, what your views are on Veliotis' inexperience in that company, and how his relationships with people out there, but that's for a later day.

GEM: OK.

PT: Bob and Fred, I appreciate your making this session possible. I've got some stuff to go over and would like to be able to come back, I guess through Fred, to, if I have any follow up questions, I tried to cover them all, and if you think there are some, any questions that I should have asked in that sequence about the chronology particularly of the press conference and its aftermath, I'd be glad to go over that either now or later on.

GEM: OK, we'll I'm going to be out of pot until Sunday night. I've got a doctor's appointment that carries me through Saturday night, and I'm no good until probably around 6 o'clock on Sunday. So, just so you know that ahead of time.

PT: Yeah, well, just rather curious. Fine. I think I've, unless you, Mr. MacDonald, would like add anything that you think we didn't cover, or would like to add. I think I covered everything. But I just wanted ...

GEM: I think you have, too, Pat, and I appreciate the chance to talk to you, too. And I've heard everything good about you until Lewis didn't like you spliting up that paragraph. He, I don't want to bring that up again, but everything was very positive that I've heard from Bob or Fred or Dave.

PT: Yeah, well, we're very distresed that it, I appreciate that, we're really distressed that at the moment you feel that we've been unfair to him, and we'll try to figure out what to do about that. But, that is another question. Thanks again for taking the time and Fred, I guess I'll be back in touch with you.

RD: OK.

FB: Take care.

GEM: Bye.

(END OF TAPE #3)

Mr. **Sikorski**. You have never tape recorded or in any other way electronically recorded a conversation, either while you were at Electric Boat or in any other position in General Dynamics?

Mr. **MacDonald**. Never.

Mr. **Sikorski**. Did you, following or during your conversation, take notes with regards to the matters this subcommittee is investigating?

Mr. **MacDonald**. I didn't quite get that last part.

Mr. **Sikorski**. With regard to the matters that this subcommittee is investigating, have you taken notes during conversations or subsequent to conversations, written or put anything in writing regarding that discussion?

Mr. **MacDonald**. No, not that I'm aware of.

Mr. **Sikorski**. Mr. Chairman, we request that the witness provide us with any kind of recordings or——

Mr. **Dingell**. The Chair will address that at a later time. The Chair is not going to rule on that request at this particular time.

The Chair will recognize the gentleman from Texas Mr. Bryant.

Mr. **Lewis**. Mr. Chairman, could I elaborate a little bit on that conversation—the circumstances? I think Mr. Sikorski has read—of course, I was not involved in the discussion so I cannot attest to the accuracy of the conversation, but I do think this must be placed in perspective.

The record shows that conversation as to the part that you played and the transcript that you read, but there is no conversation between any two people that can start at one end and go to the other end with a conclusion that doesn't include consideration of all aspects of the conversation.

And I contend, sir, that the principal issue here is one of very vital disclosure, vital disclosure of a situation with respect to a troubled division. The 688 class submarine, as you undoubtedly know from reading up on the story, had had long years of losses, troubles, claims, arguments, disputes and so on all through the disclosures that resulted there.

We had pictured and stated that the Trident submarine was doing well and would be a successful and profitable program. These materials were given to our shareholders. These materials were given to the SEC in our normal reports, and, of course, press releases.

Here, out of nowhere, we are in the middle of 1977 in a major confrontation with the Navy, and deep concern about $560 million in claims, or whatever the number was at that time, and suddenly, through clumsiness, really, on the part of the Navy admirals, they were misunderstood.

Now we have the problem where the press comes out and says the disclosures of General Dynamics have been wrong, this is not a profitable program, $400 million of losses are pictured—and they laid it at our doorstep, which—please may I finish?

Mr. **Sikorski**. Wait a minute. The confusion of the admirals was not only on cost, it was on schedules.

Mr. **Lewis**. Well yes. I would like to address that. Now, I am not sure, but we had advised the Navy, we had to tell the Navy, of course, and they advised the Congress, as Mr. MacDonald says, that there was a slip back to October of 1979, in our judgment, in the middle of that year. We then saw this, and we were very concerned. We wrote the press release, coordinated with the Navy. They agreed that only approximately 25 or 27, 28 percent of that amount could be attributed to us, which could in no way result in a loss to the program.

We were determined that it was our obligation to disclose the true story. We did two things. First thing, we went to the Navy and said, we badly need clarification. The second thing, we have a duty to our shareholders and to the investing public. We wrote up a press release. That release was read to Mr. Veliotis with respect to the cost.

We got to the issue of schedule, and the Navy at that point had said words to this effect: "The company has indicated that the delivery schedule of our first submarine would be in October 1979; the Navy believes the date of April 1980 is more nearly accurate—or words to that effect in that press conference."

So we faced the issue of the costs, and at the bottom we said, well, we have to consider this indecision that Mr. Victor has brought up that we may have a 3, 4 or 5-month problem. So we attempted to resolve that by saying, this is our number, this is the Navy's number, one sentence.

Mr. SIKORSKI. What about Mr. Veliotis' statements to you?

Mr. LEWIS. OK. So then we tried to find from Mr. Veliotis what other date do you have that you would recommend. He says, I'm not able to do that.

Mr. SIKORSKI. That's not what he said. He said 1980.

Mr. LEWIS. No, he would not give us a date.

Mr. SIKORSKI. It says right on the tape, Mr. Lewis.

Mr. LEWIS. If I could just finish in just a minute——

Mr. SIKORSKI. We have direct testimony. We don't need your conclusory comments on a conversation you weren't privy to. What do you think we are?

Mr. LEWIS. But I have also heard other parts of that tape, Mr. Sikorski, which you have not bothered to mention or bothered to play——

Mr. SIKORSKI. What other parts?

Mr. LEWIS [continuing]. That's part of the tape of conversations he had with Admiral Bryan where he told Admiral Bryan: "I cannot give you a date, and I have had a study instigated; I have been in this yard, I have a study instigated, I have a study under way, and I hope to be able to give you an answer early in February."

Mr. SIKORSKI. That was a discussion between the contractor and the beneficiary of the contract.

Mr. LEWIS. Of course, and the essence of that was that I, Veliotis, do not know what the schedule is; I cannot give you a responsible——

Mr. SIKORSKI. That's with Mr. Bryan, but we are talking about what the knowledge is of your corporation, which you are required under the 1934 Securities and Exchange Act, to tell the truth about, and you lied. You didn't tell the truth.

Mr. LEWIS. That is absolutely not so.

Mr. SIKORSKI. You lied, Mr. MacDonald knew it.

Mr. Lewis. We were told by people who we were told were more expert than Mr. Veliotis, after 4 weeks on the scene, that our ship schedule might shift as much as——

Mr. Sikorski. OK. Mr. Lewis, when was the ship delivered?

Mr. Lewis. The ship was delivered——

Mr. Sikorski. In 1981.

Mr. Lewis. And would you care to ask the Navy why? why?

Mr. Sikorski. Thank you, Mr. Chairman. It was 2 years late.

Mr. Lewis. The fundamental issue was disclosed. And I would like to make one additional point. We are all concerned with disclosure with respect to the protection of all the shareholders, all investing public. When Mr. Veliotis did come up with this estimate of 7 months even beyond the Navy's schedule, that date, as I remember, sir, was March 17, 1978, which was, I remind you, almost 5 months later.

Mr. Sikorski. Mr. Chairman, Mr. Veliotis' tapes are on the record.

Mr. Lewis. The stockpirce was $41½ and went for 1 solid week and there was no change, essentially, in the stock price up or down, one way or the other, which proves our basic, fundamental assertion that schedule is of no importance, cost is of vital importance to the evaluation of our stock.

Mr. Sikorski. Mr. Chairman, Mr. Veliotis' comments with regard to the date of delivery are on the tape recording in several instances. Mr. MacDonald——

Mr. Lewis. And now the whole story is on the record.

Mr. Sikorski. Let me finish, Mr. Lewis. I let you finish. Mr. Veliotis' testimony, direct evidence, is on that tape, and it is not what you say. They are much later dates. And the proof of the pudding is you delivered it 2 years late, not 1 year plus that which Mr. Veliotis was telling you, but 2 years late.

Thank you, Mr. Chairman.

Mr. Dingell. The Chair recognizes the gentleman from Texas, Mr. Bryant.

Mr. Bryant. Mr. Lewis, few companies or groups of managers, if anybody, have profited so handsomely from doing business with the U.S. Government in our history as your company has, and it has come to my attention that apparently General Dynamics has paid no Federal income taxes since 1972, although the company reported more than $2 billion in profits since that time. Is that correct?

Mr. MacDonald. That is fairly close.

Mr. Lewis. Well, I'm not sure of the precise years. And I also take some exception to the fact that we have made more money during that time than other people, but——

Mr. Bryant. I am asking, have you reported about $2 billion in profits during that time?

Mr. MacDonald. I don't know the exact number, but that is probably right.

Mr. Lewis [continuing]. I'm not sure.

Mr. Bryant. I don't know how the chairman of the board cannot be sure.

Mr. Lewis. The basic issue is did we pay any taxes. The answer to that is, "Yes." The answer to that is, "No," we did not.

Mr. Bryant. My question is did you make $2 billion in profits during that period of time?

Mr. MacDonald. That's probably roughly in that neighborhood.

Mr. Bryant. And you paid no taxes; is that correct?

Mr. MacDonald. That is correct.——

Mr. Bryant. From 1979 to 1983, General Dynamics paid out dividends of approximately $100 million to stockholders; is that correct?

Mr. MacDonald [continuing]. For 1979?

Mr. Bryant. From 1979 to 1983, your company paid out approximately $100 million to stockholders; is that correct?

Mr. Lewis. I think it's more than that.

Mr. Bryant. Even more than $100 million to stockholders? Yet in those 4 years you paid no Federal income taxes; is that correct?

Mr. MacDonald. Yes.

Mr. Bryant. Well, I simply have to express my stupefication at the very idea that since 1972 you have made no contribution to the defense budget that you lobby day in and day out on this Hill to increase. Is that a correct statement?

Mr. Lewis. Were you addressing that to me?

Mr. Bryant. Yes, Mr. Lewis.——

Mr. Lewis. I'm sorry. I really can't hear you very well. Maybe you could get a little closer.

Mr. Bryant. Excuse me. Maybe it's my accent. I'm from Texas.

Mr. Lewis. Well, I can understand your accent.

Mr. Bryant. I'll just ask you once again if it is true that since 1972, General Dynamics has made no contributions to the defense budget of the United States of America that you lobby assiduously every day of the week on this Hill to increase?

Mr. Lewis. We have paid no taxes during that time period.

Mr. Bryant. I would just like a yes or no answer to my question.

Mr. Lewis. Well, you make a couple of assumptions in there that——

Mr. Bryant. You are free to quarrel with the assumptions if you would like to. Do you lobby up here every day to increase the defense budget?

Mr. Lewis. I certainly don't, and I don't think our people do. We are very active in support of a stronger defense budget as a generalization. That is certainly factual.

Mr. Bryant. I think your inability to give a yes or no answer to a simple question raises serious questions about your credibility in answering all of these other questions. You clearly lobbied for an increased defense budget, and you clearly, apparently, have not paid any taxes to help support that defense budget. Is that a correct statement?

Mr. Lewis. We clearly lobbied for an increased defense budget—clearly support an increased defense budget, and we have not paid any taxes since 1972. And that is yes.

Mr. Bryant. I would like to go back to the Lester Crown matter just briefly because you made a statement earlier that you might want to amend with regard to your interpretation of how much moral turpitude is involved in the crime of bribery.

First let me ask you this question. Is classified information discussed at board meetings of your company?

Mr. Lewis. No; We have—our board room is not cleared for classified material.

Mr. Bryant. You discuss no sensitive classified information at board meetings?

Mr. Lewis. Well, we try not to.

Mr. Bryant. You just gave me a contradictory answer. Do you or do you not discuss classified, sensitive information in your board meetings? Yes or no?

Mr. Lewis. Our policy is no, but I can't guarantee you over the last 15 years that someone hasn't slipped up and made some comment that was classified.

Mr. Bryant. Are sensitive, classified documents ever furnished to board members?

Mr. Lewis. Yes; well, I'm not sure. They are shown classified material in classified areas. I don't believe—you are talking about outside directors, presumably?

Mr. Bryant. Members of the board of directors of your corporation.

Mr. Lewis. Well, some of them are employees who are cleared, of course. All of our directors are cleared for classified information. I'm not vacillating, but, you see, a lot of our meetings involve directors who are employees that are not serving in that capacity as directors and they are deeply involved in it every day.

Mr. Bryant. Let me just restate my question. It's a very simple question. Are sensitive, classified documents ever furnished to members of the board of directors of General Dynamics?

Mr. Lewis. I don't think so. You have to define furnished, Mr. Bryant. I'm not trying to quibble or play with words. This security is a difficult issue, and we try very hard to live up to it accurately and completely.

Mr. Bryant. Let me ask it this way. Is information that is sensitive or classified in any form, whether written or oral, ever provided to members of the board of directors of General Dynamics?

Mr. Lewis. Yes, it has been. Yes.

Mr. Bryant. And sometimes, apparently, even though you said your policy is otherwise, a statement with regard to classified information may slip out in a board meeting. You said, I think——

Mr. Lewis. The only concern there is where that meeting is held, there could be a slip.

Mr. Bryant. I didn't ask anything about where meetings are held. Wherever they are held, sometimes, apparently, classified information gets out in a board meeting; is that correct?

Mr. Lewis. It is correct, and very extensively in areas that are cleared for classification. I don't want to mislead you that it is only unintentional because some of it is very intentional in classified surroundings.

Mr. Bryant. I am going to start my question all over again because what you just said is contradictory to what you first answered. Is sensitive, classified information discussed in your board meetings, either accidentally or on purpose?

Mr. Lewis. Yes. Is it disclosed? Yes, and no.

Mr. **Bryant**. Sensitive classified information is discussed in your board meetings?

Mr. **Lewis**. Some board meetings.

Mr. **Bryant**. Sensitive classified documents are looked at by members of your board as well; is that correct?

Mr. **Lewis**. In some meetings, that are under classified conditions, yes, security conditions.

Mr. **Bryant**. It doesn't matter to me whether we are talking about——

Mr. **Lewis**. It has to matter to you, because that is what the law is.

Mr. **Bryant**. I'm sorry; what?

Mr. **Lewis**. The security regulations are very clear. People who are cleared have access to classified information, but only under certain conditions, certain environmental conditions.

Mr. **Bryant**. I am interested to hear your explanation that the security laws and regulations are very clear. They certainly didn't seem very clear to you with regard to Lester Crown. And once again, let me ask you, is it true that in some of your meetings, classified information is discussed at board meetings, in some of the meetings?

Mr. **Lewis**. Yes.

Mr. **Bryant**. And sensitive classified documents pass in front of the eyes of members of the board in some of the meetings; is that correct?

Mr. **Lewis**. Yes.

Mr. **Bryant**. Has Mr. Lester Crown been privy to this information?

Mr. **Lewis**. Yes.

Mr. **Dingell**. Can you tell us, what was the nature of the clearance that Mr. Crown had? Was it top secret?

Mr. **Lewis**. It is my understanding that he was issued a top secret clearance, Mr. Chairman, I believe in 1974.

Mr. **Dingell**. That authorized him to receive any information that fell within that clearance?

Is that right?

Mr. **Lewis**. Not any, no sir. There are areas that require need-to-know that are separate.

Mr. **Dingell**. That's right. But any information that was subject to that clearance was then theoretically available to Mr. Crown in the course of these——

Mr. **Lewis**. It would be available to him, other than that that I mentioned; yes, sir.

Mr. **Dingell**. How was his clearance obtained? Did you apply for it on his behalf, did he apply for it directly? Did the company apply for it? How was that clearance procured?

Mr. **Lewis**. I am not positive, but I believe that the security people in the company provided him with the forms and he fills them out and submits them personally, but——

Mr. **Dingell**. Does he submit them personally, or does he submit them through the clearance people of the company?

Mr. **Lewis**. I cannot answer that. I think it's personal, because there are parts of that document—Mr. Chairman, I don't know, but there are parts of that document that our people are not supposed to be privy to.

Mr. **Dingell**. Do you have a clearance?

Mr. **Lewis**. Yes, sir.

Mr. **Dingell**. Do you have a clearance, Mr. MacDonald?

Mr. **MacDonald**. Yes, sir.

Mr. **Dingell**. What is your clearance, gentlemen, each?

Mr. **Lewis**. My clearance is top secret.

Mr. **Dingell**. Mr. MacDonald?

Mr. **MacDonald**. Same.

Mr. **Dingell**. Now, when you each submitted your request for clearance, how was it done?

Mr. **Lewis**. I filled out the forms and they were processed, I'm confident, through the company, but I don't know that. I handed it in to my secretary.

Mr. **Dingell**. You handed them to your secretary and your secretary then processed them through the company?

Mr. **Lewis**. Yes, sir. I'm confident that they went through our security department.

Mr. **Dingell**. How about you, Mr. MacDonald?

Mr. **MacDonald**. That's the way I remember mine, too.

Mr. **Dingell**. So the company processed your forms for you?

Mr. **Lewis**. I think so, yes.

Mr. **MacDonald**. That's what I think.

Mr. **Dingell**. Is there any reason to assume that that didn't occur in the case of Mr. Crown?

Mr. **Lewis**. Not at all. I think it probably was. I just don't know.

Mr. **Dingell**. In other words, Mr. Crown's forms were processed in the regular way, which is through the company?

Mr. **Lewis**. I would think so, yes, sir, but I don't know.

Mr. **Bryant**. Mr. Lewis, with regard to Mr. Crown, you acknowledge without any dispute, do you not, that he bribed some members of the legislature?

Mr. **Lewis**. Well, I have been told that.

Mr. **Bryant**. And you had been told that before you processed his security clearance; is that correct?

Mr. **Lewis**. I do not believe so. I have been advised that the chronology of that was that he had applied for the security clearance before that disclosure was made to me.

Mr. **Bryant**. When you heard of it, did you do anything to stop it?

Mr. **Lewis**. No. It didn't cross my mind. I was not—even as I believe I mentioned earlier, Mr. Bryant, I was not even conscious, I guess, of the fact that he was applying for a security clearance.

Mr. **Bryant**. But at some point you must have become conscious of the fact that you were going to promote him to the board of directors at General Dynamics, and you personally supported him for that position, and I think you said you made it your business to get him on the board because of his father's significant ownership of General Dynamics. When you began to promote him to the board of directors, which has the right or the power and opportunity to see classified information, you knew then that he was guilty of bribery, did you not?

Mr. **Lewis**. Yes, I think that's right, that he was—what were the words you used?

Mr. **Bryant**. That he was guilty of bribery. You also knew that he was guilty of falsifying documents in order to get reimbursement for the bribery that he committed.

Mr. **Lewis**. I'm not sure of that. There is some question in my mind about when I learned that part. But I was aware of the first part.

Mr. **Bryant**. You promoted a man to the board of directors of a company that makes some of the most significant weapons this Nation uses, who everyone acknowledges committed bribery, and who everyone acknowledges attempted to get back his bribe money by falsifying documents.

My question to you is: Are there any other members of the board of directors of General Dynamics who have committed crimes?

Mr. **Lewis**. Certainly not to my knowledge.

Mr. **Bryant**. To your knowledge, testifying under oath today, there is no one on your board who has committed any offense against the public laws of any of the States or of the Federal Government?

Mr. **Lewis**. Well, I must say, that's a surprise question. I would certainly doubt it.

Mr. **Bryant**. I'm just asking in your knowledge.

Mr. **Lewis**. If you're asking for my knowledge, my knowledge is no.

Mr. **Bryant**. That's all you can be held responsible for, what is within your knowledge.

I have no further questions, Mr. Chairman.

Mr. **Dingell**. The time of the gentleman has expired.

The Chair recognizes the gentleman from Ohio, Mr. Eckart.

Mr. **Eckart**. Mr. Lewis, there is a lot of talk, and I'm sure that you perceive it as seriously as we do, in terms of deficit reduction.

Part of the deficit reduction is going to focus on budget cuts of a wide range in nature, and the question, of course, is what role ought government have in the provision of services to the people.

With that preface, why did General Dynamics bill the government $18,650 for the initiation fee for a G.D. executive at the Old Warson Country Club in St. Louis?

Mr. **Lewis**. I don't know that they did. If they did, they shouldn't have.

Mr. **Eckart**. I assume that the stress of the job relating to dealing with the government indeed can be very serious. But do you assume that it's a direct relationship and something that the taxpayers ought to subsidize?

Mr. **Lewis**. No, I don't believe that that is appropriate, an appropriate charge against government contracts.

Mr. **Eckart**. Well, then, Mr. Chairman, I would like to submit for the record a receipt from the Warson Country Club, Mr. James R. Mellor, General Dynamics Corp. St. Louis, Mo., $18,650, submitted by General Dynamics for payment from the government.

[The document referred to follows:]

Old Warson Country Club
9841 Old Warson Road • Saint Louis, Missouri 63124

Mr. James R. Mellor
General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 63105

Cancelled Check Will Serve as Your Receipt. When Remitting by Check, Detach and RETURN THIS STUB.

AMOUNT DUE

$ ____________

STATEMENT

OLD WARSON COUNTRY CLUB, ST. LOUIS, MO. 63124

DATE	DEBIT	CREDIT	BALANCE
pril 13, 1983			
	Initiation Fee		$17,000.00
	Debt Conversion Note		1,650.00
			$18,650.00

1 – PAYMENT
2 – DUES
3 – LOCKER RENTAL
4 – HOUSE CHARGES
5 – ASSESSMENT
6 – TOURNAMENT FUNDS
7 – EVANS SCHOLARSHIP
8 – CORRECTIONS
9 – MISCELLANEOUS

PAID
83

830

Batch No. (3)

ne 'o. 2)	DEPT. NO. (3)	ACCOUNT NO. (5)	DETAIL AMOUNT				1099 (2)	REFERENCE		T/R NUMBER (1-10)
			Mil. (1-2)	Tho. (1-3)	Hun. (1-3)	Cts. (1-2)		#1 (1-4)	#2 (6)	
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CHECK DATE			BANK CODE (3)	VENDOR NUMBER (9)	INVOICE DATE			PAYMENT TOTAL			
MO (2)	DAY (2)	YR (2)			MO (2)	DAY (2)	YR (2)	Mil. (1-2)	Tho. (1-3)	Hun. (1-3)	Cts. (1-2)

68094

GENERAL DYNAMICS
PIERRE LACLEDE CENTER
ST. LOUIS, MISSOURI 63105

T/R NUMBER	INVOICE DATE	INVOICE NUMBER	GROSS AMOUNT	DISCOUNT AMOUNT	NET AMOUNT
	4/27/83		18,650.00		13,650.00

Reimbursement for Old Warson Country Club Initiation

3/B 11/1/82

68094

GENERAL DYNAMICS
PIERRE LACLEDE CENTER
ST. LOUIS, MISSOURI 63105

80-460
810

DATE
4/27/83

NET AMOUNT
*****18,650.00*****

VOID AFTER 90 DAYS

To The Order Of:

James Seller

t National Bank of Clayton
erre Laclede Center
07 Forsyth Boulevard
Louis, Missouri 63105

NON-NEGOTIABLE

APPROVED BY (SIGNATURE)	DATE 4/26/83
REQUESTED BY (SIGNATURE)	DATE 4/22/83

GENERAL DYNAMICS

CORPORATE OFFICE PAYMENT REQUEST

PLEASE READ INSTRUCTIONS ON REVERSE

		Batch No. (3)	Voucher (6)
PREPARED BY		DATE	

FORM NO. OF

Line No. (2)	DEPT. NO. (3)	ACCOUNT NO. (5)	DETAIL AMOUNT Mil. (1-2)	The. (1-3)	Hun. (1-3)	Cts. (1-2)	ONE PAYEE ONLY (1-17)
01	150	[illegible]		185	500	00	JAMES [illegible] SELLORS
02							
03							
04							
05							

1099 (3)	REFERENCE #1 (1-4)	REFERENCE #2 (6)	T/R NUMBER (1-10)

OPTIONAL CHECK STUB DESCRIPTION

LINE 1 (1-16)	LINE 2 (1-16)

CHECK DATE MO (2)	DAY (2)	YR (2)	CHECK NUMBER (6)	BANK CODE (3)	ORIGINA VOUCHER (6)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	

ADDRESS (IF NOT ATTACHED)	PURPOSE (IF NOT ATTACHED)
STREET	Reimbursement for Old Warson
CITY STATE	Country Club [illegible] Initiation
ZIP COUNTRY	

ATTENTION:

KEY PUNCH SHADED AREAS ONLY

VENDOR NUMBER (9)	INVOICE NUMBER (10)	Trans Code (2)	01-Unpaid Voucher 02-Date Corrected 09-Paid Voucher	INVOICE DATE MO (2)	DAY (2)	YR (2)	DISCOUNT THO (1-3)	HUN (1-3)	CTS (1-2)	PAYMENT TOTAL MIL (1-2)	THO (1-3)	HUN (1-3)	CTS (1-2)	DUE DAT MO (2)	DAY (2)
[illegible]		[illegible]		[illegible]	[illegible]	[illegible]									

ONE TIME VENDOR ONLY

NAME (1-23)	STREET ADDRESS (1-20)	CITY (1-15)	ST (2)	ZIP (5)

181.

Mr. **Eckart**. Is this a common practice, Mr. Lewis?

Mr. **Lewis**. Well, I think I mentioned earlier in my opening remarks that we have been reviewing the materials that the committee has been studying, and I think we have—if we visualize the process in which these accounts are handled, it is apparent that there have been some mistakes made.

It is perfectly clear that charges that are not appropriate should not be submitted. However, even when those charges are submitted, bills, as you say—and you mentioned that one—the DCAA has the authority to question those, of course, and the contracting officer has the authority to disallow it.

Mr. **Eckart**. Well, I understand that, Mr. Lewis, but it seems——

Mr. **Lewis**. And in that process, if that was submitted, I think mistakes have been made.

Mr. **Eckart** [continuing]. Mr. Lewis, what it bespeaks is an attitude of catch us if you can. Does not General Dynamics have an internal review process that would raise these questions before we have to come back to you with receipts and documents in hand that are embarrassing to you——

Mr. **Lewis**. I think we do have, Mr. Eckart, I do think we have that checks and balance in the process. And historically the number of items that are questioned by the DCAA, who have reviewing and questioning responsibility only, I am told that the number of those questions and commented-upon items, only a few of those are finally resolved adverse to our position.

So I would have to conclude from that—which is what I'm told by our people—that we do generally a very, very good job, considering the thousands of accounts in an overhead allotment with which we and the government auditors, ours and the government's auditors, have to work with.

I don't think this portrays an attitude of catch us if you can, or we'll try to slip one in, or whatever else.

Mr. **Dingell**. I yield to my friend from Alabama.

Mr. **Shelby**. Mr. Lewis, how can you say in your written testimony that has been submitted for the record, and included therein, that you have "occasional slip-ups" on your overhead billings to the government, when the Defense Contract Audit Agency [DCAA], has questioned over $50 million of the $143 million that your company tried to bill the government from 1979 to 1982 for corporate overhead? And you will recall that the DCAA does not even do 100-percent audits. They are questioning $50 million. Is that an occasional slip-up?

Mr. **Lewis**. I tried to explain, sir, just a minute ago that the——

Mr. **Shelby**. The problem is, you cannot explain it.

Mr. **Lewis**. Of course I can explain it, if you would let me explain to you the mechanics, just for a second.

Mr. **Shelby**. Well, we are having trouble with your mechanics. I think the taxpayer is.

Mr. **Lewis**. Oh, no, they were not disallowed, Mr. Shelby. The acid test is how many of those that he questioned finally were disallowed. And the number is, I am told, substantially a very small percentage of that number.

Any auditor has the responsibility for questioning anything he doesn't understand, or to comment on things that he thinks are inappropriate.

Mr. **Shelby**. We understand that.

Mr. **Lewis**. But he is not the point of decision, he has no authority to decide or disallow anything. So he could make that $150 million and make it an even bigger number, but the acid test is what was disallowed by the contracting officer.

Mr. **Shelby**. Thinking of the acid test, let me just review several with you briefly, if the gentleman will yield further to me.

Can you explain, Mr. Lewis, the rationale, the acid test, as you call it, for charging the government for General Dynamics' quarterly review meetings at a plush resort?

[Testimony resumes on p. 196.]

[The following documents were submitted:]

*** REVISED ***

To: John Ziombra ([illegible])

From: Cynthia Croft (G-D)

Subject: 1983 Kiawah Island/Performance Review Meeting Expenses

The following information is being provided in response to your inquiry of 22 October 1984.

1. PURPOSE OF TRIP AND AGENDA

NEVER PROVIDED

The purpose of the meeting was performance reviews. Agenda for performance review meeting sessions is attached. Many of the attendees have smaller sub-meetings in the afternoons, but these do not appear on the formal agenda.

2. WAS MEETING HELD AT HOTEL AND WERE ANY GD FACILITIES VISITED DURING MEETING?

All meeting sessions and functions were held at the Kiawah Island Hotel. No GD facilities were visited. We generally have the quarterly review meetings away from GD facilities to minimize interruptions.

3. TOTAL COSTS OF MEETING

The Kiawah bill includes all costs of the meeting from arrival at the airport in Charleston to departure from the airport. It covers such items as ground transportation, room costs, meals, meeting expenses, organized group activities, gratuities and recreation. Travel arrangements are made individually through division and Corporate travel offices, so we do not have a summary record of these expenses. Car rental expenses are minimal as attendees are picked up and returned to the airport as a group, and generally do not leave the hotel during the meeting.

4. COSTS OF MEETING WHICH WERE CONCEDED

We have excluded from our 1983 Corporate Office overhead claim $12,228 of costs related to this performance review meeting at Kiawah. In addition, we billed and collected payment from various individuals for personal charges totalling $6,539 for recreation and purchases which were included on the Kiawah bill.

5. TOTAL COSTS PROPOSED TO THE GOVERNMENT FOR KIAWAH ISLAND MEETING

Approximately $89,500 of costs (WITHOUT TRAVEL) related to the Kiawah Island meeting were included in our 1983 Corporate Office overhead claim.

6. COPY OF SELECTED MOTEL BILLS

Attached hereto.

Meeting staff	4

Total	144
	===

8. DATES AND LOCATIONS OF OTHER QUARTERLY REVIEW MEETINGS DURING THE YEAR 1983

25-26 April	Holiday Inn-Westport, St. Louis, MO
25-26 July	Holiday Inn-Westport, St. Louis, MO
15-16 December	Breckenridge Inn-Frontenac, St. Louis, MO

J. [illegible]

GENERAL DYNAMICS PRIVATE INFORMATION

10/22/84
no. 6

Ref: p38

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Kiawah Island

P.O. BOX 12910 – CHARLESTON, S.C. 29412
(803) 768-2121

CROWN, L. M/M
GENERAL DYNAMICS CORP.-EP

ARRIVAL	11/01/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	

81 STE. OCEANFRONT

ACCOUNT NO 0204453 ROOM NO 23728

	DATE	DESCRIPTION	AMOUNT
1	11/01/83	ROOM 6342	184.00
2	11/01/83	ROOM TAX 6343	7.36
3	11/02/83	ROOM 7287	184.00
4	11/02/83	ROOM TAX 7288	7.36
5	11/03/83	JASMINE PORCH FOOD 36947	6.88
6	11/03/83	LONG DISTANCE 3122366300	6.87
7	11/03/83	LONG DISTANCE 3122366300	8.07
8	11/03/83	ROOM 8451	184.00
9	11/03/83	ROOM TAX 8452	7.36
10	11/03/83	TOPSIDER LOUNGE 3[illegible]75	4.72
11	11/04/83	LONG DISTANCE 13122510565	3.17
12	11/04/83	LONG DISTANCE 12127473385	7.17
13	11/04/83	LONG DISTANCE 19196831531	8.13
14	11/04/83	LONG DISTANCE 1212555[illegible]300	15.21
15	11/04/83	LONG DISTANCE 12129867[illegible]53	2.18
16	11/04/83	LONG DISTANCE 13148544100	20.54
17	11/04/83	LONG DISTANCE 12132086055	2.86
18	11/04/83	LONG DISTANCE 13122366300	5.06
19	11/04/83	LONG DISTANCE 9196831531	15.11
		CONTINUED....	

I/We accept full liability for any charges incurred which are not paid by company represented and agree(s) to pay the said charges upon check-out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check-out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay all costs of collection and a reasonable attorney's fee.

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CROWN, L. M/M
GENERAL DYNAMICS CORP.-EP

ARRIVAL 11/01/83
DEPARTURE 11/06/83
NO. IN PARTY 2
RATE

81 STE. OCEANFRONT

ACCOUNT NO 0204453
ROOM NO 23728

	DATE	DESCRIPTION	AMOUNT
20	11/04/83	LONG DISTANCE 13122510565	3.38
21	11/04/83	ROOM SERVICE FOOD 916	7.89
22	11/04/83	LONG DISTANCE 13122366300	11.38
23	11/04/83	LONG DISTANCE 13122510565	2.57
24	11/04/83	ROOM 9829	184.00
25	11/04/83	ROOM TAX 9830	7.36
26	11/05/83	ROOM SERVICE FOOD 652	7.89
27	11/05/83	LONG DISTANCE 1212683856[illegible]	2.40
28	11/05/83	ROOM 11235	184.00
29	11/05/83	ROOM TAX 1123[illegible]	7.36
30	11/06/83	LONG DISTANCE 31[illegible]423836	3.81
31	11/06/83	LONG DISTANCE 31[illegible]461844	2.35
32	11/06/83	JASMINE PORCH FOOD 40558	13.75
		BALANCE DUE	1.118.21

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DUESENBERG, R.H. M/M
GENERAL DYNAMICS CORP.-EP

ARRIVAL	11/01/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	

OCEANFRONT RATE

ACCOUNT NO 0204458 ROOM NO 0322

[illegible]	DATE	DESCRIPTION	AMOUNT
1	11/01/83	ROOM 6238	143.75
2	11/01/83	ROOM TAX 6239	5.75
3	11/02/83	JASMINE PORCH FOOD 41068	13.75
4	11/02/83	LONG DISTANCE 13148438101	2.37
5	11/02/83	ROOM 7177	143.75
6	11/02/83	ROOM TAX 7178	5.75
7	11/03/83	JASMINE PORCH FOOD 36975	3.53
8	11/03/83	JASMINE PORCH FOOD 41354	14.23
9	11/03/83	ROOM 8253	143.75
10	11/03/83	ROOM TAX 8254	5.75
11	11/04/83	JASMINE PORCH FOOD 37114	3.53
12	11/04/83	JONAH'S FOOD 365[illegible]	5.62
13	11/04/83	JONAH'S FOOD 36531	18.78
14	11/04/83	JONAH'S FOOD 36531 POSTING ERROR	18.78 CR
15	11/04/83	ROOM 9555	143.75
16	11/04/83	ROOM TAX 9556	5.75
17	11/05/83	JASMINE PORCH FOOD 37284	6.88
18	11/05/83	LONG DISTANCE 3148438101	5.58
19	11/05/83	JONAH'S FOOD 38227	5.98
		CONTINUED....	

I/We accept full liability for any charges incurred which are not paid by company represented and agree(s) to pay the said charges upon check-out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check-out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay all costs of collection and a reasonable attorney's fee.

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[redacted]

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DUESENBERG, R.H. M/M
GENERAL DYNAMICS CORP.-EP

ARRIVAL	11/01/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	[redacted]

OCEANFRONT RATE

ACCOUNT NO 0204458 ROOM NO 0322

	DATE	DESCRIPTION	AMOUNT
20	11/05/83	TOURS AND TRANS. 9560 [illegible]	50.00
21	11/05/83	WEST BEACH TENNIS 26234	6.76
22	11/05/83	JONAH'S FOOD 38401	6.46
23	11/05/83	ROOM 11067	143.75
24	11/05/83	ROOM TAX 11068	5.75
25	11/06/83	LONG DISTANCE 3148438101	3.77
		BALANCE DUE	875.96

I/We accept full liability for any charges incurred which are not paid by company represented and agree(s) to pay the said charges upon check-out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check-out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay all costs of collection and a reasonable attorney's fee.

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LEWIS. D.S. M/M
GENERAL DYNAMICS CORP.-EP

ARRIVAL	11/01/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	[redacted]

B2 CST STE. - VVIP S/W SECREASE

ACCOUNT NO. 0204494 ROOM NO. 22708

#	DATE	DESCRIPTION	AMOUNT
1	11/01/83	LONG DISTANCE 14042621086	5.20
2	11/01/83	ROOM 6326	149.50
3	11/01/83	ROOM TAX 6327	5.98
4	11/02/83	ROOM 7259	149.50
5	11/02/83	ROOM TAX 7270	5.98
6	11/03/83	JASMINE PORCH FOOD 36926	6.88
7	11/03/83	JASMINE PORCH FOOD 36928	6.88
8	11/03/83	JASMINE PORCH FOOD 36946	6.88
9	11/03/83	TURTLE POINT 78490	13.52
10	11/03/83	TURTLE POINT 78[illegible]	60.32
11	11/03/83	ROOM 8407	149.50
12	11/03/83	ROOM TAX [illegible]	5.98
13	11/04/83	ROOM SERVICE FOOD 911	4.48
14	11/04/83	JASMINE PORCH FOOD 4[illegible]520	5.62
15	11/04/83	LONG DISTANCE 9129265[illegible]	5.74
16	11/04/83	LONG DISTANCE 9128885911	4.65
17	11/04/83	LONG DISTANCE 9127926550	2.88
18	11/04/83	ROOM 9775	149.50
19	11/04/83	ROOM TAX 9776	5.98

CONTINUED....

I/We accept full liability for any charges incurred which are not paid by company represented and agree(s) to pay the said charges upon check-out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check-out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay all costs of collection and a reasonable attorney's fee.

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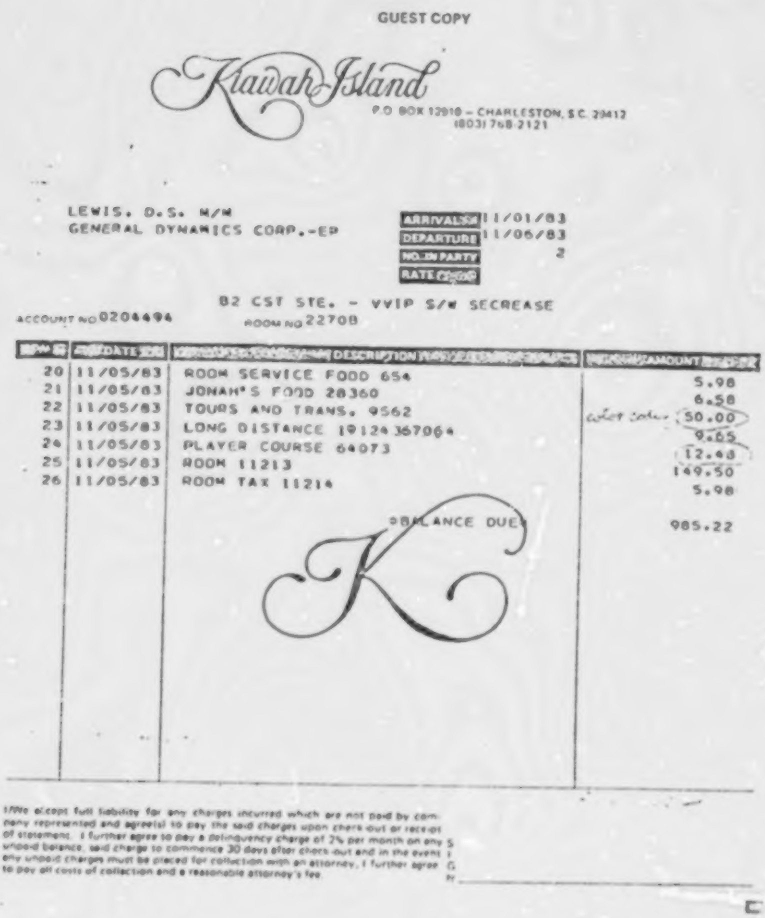

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LEWIS, D.S. M/M
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ARRIVAL	11/01/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	

B2 CST STE. - VVIP S/W SECREASE

ACCOUNT NO 0204494 ROOM NO 22708

[illegible]	DATE	DESCRIPTION	AMOUNT
20	11/05/83	ROOM SERVICE FOOD 654	5.98
21	11/05/83	JONAH'S FOOD 28360	6.58
22	11/05/83	TOURS AND TRANS. 9562	what color 50.00
23	11/05/83	LONG DISTANCE 19124367064	9.65
24	11/05/83	PLAYER COURSE 64073	12.48
25	11/05/83	ROOM 11213	149.50
26	11/05/83	ROOM TAX 11214	5.98
		BALANCE DUE	985.22

I/We accept full liability for any charges incurred which are not paid by company represented and agree(s) to pay the said charges upon check-out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check-out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay all costs of collection and a reasonable attorney's fee.

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LEFEVRE, E.J. M/M
GENERAL DYNAMICS CORP.-EP

ARRIVAL 11/02/83
DEPARTURE 11/06/83
NO. IN PARTY 2
RATE

1:00 PM CHECK OUT OK PER TED

ACCOUNT NO 0204491 ROOM NO 0305

	DATE	DESCRIPTION	AMOUNT
1	11/02/83	ROOM 7137	143.75
2	11/02/83	ROOM TAX 7138	5.75
3	11/02/83	TOPSIDER LOUNGE 2916	2.39
4	11/03/83	JASMINE PORCH FOOD 41335	6.88
5	11/03/83	JASMINE PORCH FOOD 41367	9.21
6	11/03/83	TURTLE POINT 78401	30.16
7	11/03/83	TOURS AND TRANS. 9590	50.00
8	11/03/83	ROOM 8219	143.75
9	11/03/83	ROOM TAX 8220	5.75
10	11/04/83	JASMINE PORCH FOOD 77034	6.88
11	11/04/83	JONAH'S FOOD 3639	11.36
12	11/04/83	JONAH'S LOUNGE 31397	8.31
13	11/04/83	LAUNDRY/DRY CLEANING 4446	7.38
14	11/04/83	ROOM 9521	143.75
15	11/04/83	ROOM TAX 9522	5.75
16	11/05/83	JONAH'S FOOD 38283	6.58
17	11/05/83	ROOM SERVICE FOOD 651	4.46
18	11/05/83	ROOM 11033	143.75
19	11/05/83	ROOM TAX 11034	5.75
		CONTINUED....	

[illegible]

I/We accept full liability for any charges incurred which are not paid by company represented and agree(s) to pay the said charges upon check out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay all costs of collection and a reasonable attorney's fee.

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LEFEVRE, E.J. M/M
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ARRIVAL	11/02/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	

01:00 PM CHECK OUT OK PER TED

ACCOUNT NO 0204491 ROOM NO 0305

	DATE	DESCRIPTION	AMOUNT
20	11/06/83	JONAH'S FOOD 36453	10.17
		BALANCE DUE	751.80

I/We accept full liability for any charges incurred which are not paid by company represented and agree(s) to pay the said charges upon check out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay all costs of collection and a reasonable attorney's fee.

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SAWYER, G.A. M/M
GENERAL DYNAMICS CORP.-EP

ARRIVAL	11/01/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	

01 STE.OCEANFRONT

ACCOUNT NO 0204518 ROOM NO 24748

[illegible]	DATE	DESCRIPTION	AMOUNT
1	11/01/83	ROOM 6348	184.00
2	11/01/83	ROOM TAX 6349	7.36
3	11/02/83	ROOM 7301	184.00
4	11/02/83	ROOM TAX 7302	7.36
5	11/03/83	ROOM SERVICE FOOD 350	7.24
6	11/03/83	JONAH'S FOOD 24560	19.67
7	11/03/83	PARK CAFE RESTAURANT 1	54.77
8	11/03/83	ROOM 8483	184.00
9	11/03/83	ROOM TAX 8484	7.36
10	11/04/83	JONAH'S FOOD [illegible]	14.60
11	11/04/83	ROOM SERVICE FOOD [illegible]	3.11
12	11/04/83	PLAYER [illegible]	2.00
13	11/04/83	LONG DISTANCE [illegible]	5.18
14	11/04/83	ROOM 9851	184.00
15	11/04/83	ROOM TAX 9852	7.36
16	11/05/83	JASMINE PORCH FOOD 37241	20.63
17	11/05/83	ROOM SERVICE FOOD 647	4.48
18	11/05/83	BIKE SHOP 13795	5.20
19	11/05/83	ROOM 11249	184.00
		CONTINUED....	

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SAWYER, G.A. M/M
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ARRIVAL	11/01/83
DEPARTURE	11/06/83
NO. IN PARTY	2
RATE	

81 STE.OCEANFRONT

ACCOUNT NO 0204510

ROOM NO 24748

[illegible]	DATE	DESCRIPTION	AMOUNT
20	11/05/83	ROOM TAX 11250	7.36
21	11/06/83	JASMINE PORCH FOOD 40556	20.63
22	11/06/83	LONG DISTANCE 2138767577	8.37
		BALANCE DUE	1,122.88

I/We accept full liability for any charges incurred which are not paid by company represented and agree(d) to pay the said charges upon check out or receipt of statement. I further agree to pay a delinquency charge of 2% per month on any unpaid balance, said charge to commence 30 days after check out and in the event any unpaid charges must be placed for collection with an attorney, I further agree to pay [illegible]

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Mr. **Shelby**. For example, you billed the government for over $100,000 for a 1-week quarterly review for a meeting held at a plush resort near Charleston, S.C. in November 1983, for 70 General Dynamics' executives and spouses. Room costs for Lester Crown and his wife amounted to $191 a night.

How can you explain this? Is this going to meet your acid test to the American taxpayer?

Mr. **Lewis**. I think so, yes. Would you care for me to——

Mr. **Shelby**. I want you to explain that. I think the American people would like to hear it.

Mr. **Lewis**. We have a very—as large as it is, and as many divisions as we have, we have a very well coordinated corporation, and the people in that corporation, unlike the way they were maybe 15 years ago, are all one team. And as an example of that, when we have openings in one division or another, people from all divisions of the company are eligible for that job.

So every time one of our divisions—we are on the forefront of technology all the time, and when it gets in trouble, we need to use the assets of the whole corporation. Getting those people to know each other on a first-name basis, the management and top people, is extremely important. We do this four times a year. Obviously they are called quarterly meetings.

We have, I believe, on three or four occasions found it was very helpful to improve communications, get a better understanding of the divisions, so that the divisions and their people can help each other.

Mr. **Shelby**. Why didn't you have that meeting in St. Louis?

Mr. **Lewis**. We do.

Mr. **Shelby**. Why didn't you have this one in St. Louis? It cost $100,000.

Mr. **Lewis**. Three of these meetings each year are held in St. Louis, very intensively, and we have felt that it is a good effort, its very important to the overall success of the company, that the people and their wives and the families know each other as best we can.

Mr. **Shelby**. Mr. Lewis, why does your company continue to submit nongovernment business charges for charges in your corporate overhead? Is the government supposed to watch you like a child? Is the government expected to catch your deliberate and illegitimate charges and then say, "We are going to audit you on every item?"

Don't you owe more to the American people than that, being the No. 1 defense contractor in the United States?

Mr. **Lewis**. I don't really think you have categorized our attitude toward these things accurately, sir.

Mr. **Shelby**. Well, I think these documents speak for themselves—I will yield back to my friend from Michigan.

Mr. **Dingell**. Is there a Mr. A.M. Lovelace and his wife that went to the NASA silver anniversary dinner—Kiawah Island Resort for a quarterly meeting in November 1983? Is that right?

Mr. **Lewis**. I believe he did, yes, sir.

Mr. **Dingell**. And he vouchered that to General Dynamics, did he, as a business expense?

Mr. **Lewis**. All of the expenses of that, I believe, were submitted in one——

Mr. **Dingell**. Were these expenses charged to the government?

Mr. **Lewis**. Was he especially?

Mr. **Dingell**. Were the expenses that Mr. Lovelace and his wife vouchered to the company in turn charged to the government for that trip to Kiawah Island?

Mr. **Lewis**. I think it was.

Mr. **MacDonald**. No, it goes into a common pool of the corporation and gets spread over all the business, but the Government does pay most of it.

Mr. **Dingell**. So it is then charged, 94 percent is charged to the Federal Government?

Mr. **MacDonald**. Whatever it is.

Mr. **Dingell**. Now I have looked at the particular voucher here that was submitted, and it says "Fursten, boarding at Silver Maple Farm, $87.25." Who is Fursten? The voucher says "Fursten, boarding at Silver Maple Farm, $87.25," dated 5/14.

Mr. MacDonald, can you tell me who is Fursten?

Mr. **MacDonald**. I don't even understand what that means. I know Mr. Lovelace.

[Testimony resumes on p. 215.]

[The following documents were submitted:]

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..ERAL DYNAMICS

EXPENSE REPORT

NAME Dr. & Mrs. A. M. Lovelace	EMPLOYEE NO. 3891	DEPARTMENT NO. 110	TRAVEL REQUEST SERIAL NUMBER 14584
PERIOD FROM 5/4	TO 5/14/83		

DATE	DESTINATION		CASH ADVANCE		TRANSPORTATION			HOTEL ROOM	MEALS (SELF)			OTHER (EXPLAIN ON REVERSE)	TOTAL * CASH EXPENSE
	FROM	TO	LOCATION	AMOUNT	CODE	PROVIDED AMOUNT	PURCHASED AMOUNT		B	L	D		
5/4	St. Louis	Los Angeles	CO	400.00	BP	2610.00		139.75	--	--	16.00	16.78	172.53
5/5	Pomona							85.32	16.50	22.75	124.50	12.25	261.32
5/6	Pomona	San Diego			ATP	114.00		90.10	12.75	20.20	51.50	2.00	176.55
7	San Diego							90.10	12.75	18.15	173.50	7.71	302.31
5/8	San Diego	Long Beach						84.80	17.50	12.50	71.20	18.29	204.29
5/9	Long Beach							84.80	13.62	10.98	143.10	31.36	283.86
5/10	Long Beach							84.80	9.73	17.75	54.00	32.88	199.16
5/11	Long Beach							84.80	13.25	16.50	94.83	4.00	213.38
5/12	Long Beach	Los Angeles						83.85	12.70	15.20	75.00	4.50	191.25
5/13	Los Angeles							99.98	9.24	17.80	52.00	17.53	196.55
5/14	Los Angeles	St. Louis			H	225.67		--	12.25	--	--	87.25	99.50
		TOTALS				▨		928.30	130.29	151.83	855.73	234.55	2300.70

RECEIVED

INSTRUCTIONS

1. Trip period(s) are to be recorded on the reverse side of this form.
2. Advances are to be settled every two weeks or at the end of each trip, whichever occurs first.
3. Attach receipts for all expenses, paid by company or employee.
4. Attach all unused transportation tickets.
5. Car mileage, car rentals, taxis, parking, tolls, hospitality, telephone, telegraph and gratuities should be listed in the OTHER column with an explanation on the reverse side.
6. Transportation codes - ATP airline credit card, BP company bought ticket, H Hertz, A Avis Company rental cars.
7. Cash payment codes - CA (Air), CR (rail)
8. Cash advance location - Fill in with appropriate Division/Subsidiary, location.

* Do not include cost of company provided transportation.

EXPENSE SUMMARY

CASH ADVANCES 400.00
TOTAL CASH EXPENSE 2300.70
REIMBURSEMENT DUE EMPLOYEE 1900.70
REFUND DUE COMPANY 0

EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF THE REFUND MUST BE SUBMITTED WITH THIS REPORT

APPROVALS

EMPLOYEE'S SIGNATURE A M Lovelace
DATE 5/16/83

APPROVED BY

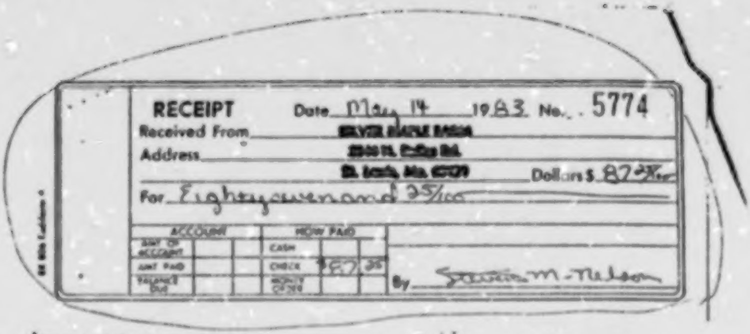
198

198

DATE	NOTES AND EXPLANATION	AMOUNTS
5/4	Phone 12.70; baggage 4.00	16.70
5/5	Phone 12.25	12.25
5/6	Tips-baggage 2.00	2.00
5/7	Phone 2.69; 5.02; Dinner Conf. (4) Shuttle Centaur discussions	7.71
5/8	Phone 11.79, tip-baggage 4.00; parking 2.50	18.29
5/9	Phone 6.86; Dinner Conf. (3) Discussions on IUS; laundry 24.50	31.36
5/10	Phone 7.26 parking 2.50; sundries 23.12	32.88
5/11	Phone 1.50; parking 2.50	4.00
5/12	Parking 2.50; tip 2.00	4.50
5/13	Phone 17.53	17.53
5/14	Fureton-boarding at Silver Maple Farm 87.25	87.25

BUSINESS TRIP PURPOSE(S)

5/4	NASA Silver Anniversary Dinner
5/5-6	Pomona - Productivity Discussions & Plant Tour
5/7	Candidate Interview - Convair
5/8-13	Annual AIAA meeting, Long Beach, AIAA Board of Directors meetings, Public Policy Committee meetings



RECEIPT Date May 14 1983 No. 5774

Received From [illegible]

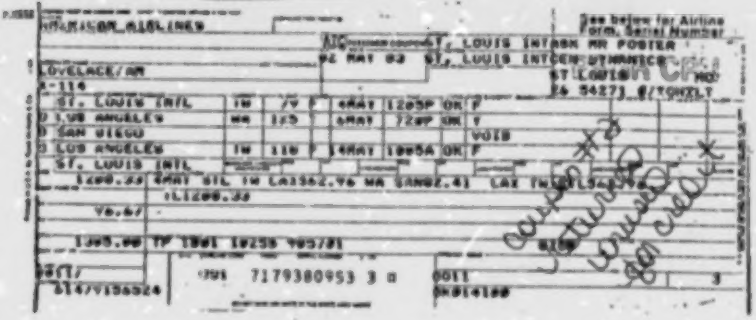
Address [illegible]

St. Louis, Mo. [illegible] Dollars $ 87 25/100

For Eighty seven and 25/100

ACCOUNT			HOW PAID		
AMT OF ACCOUNT			CASH		
AMT PAID			CHECK	$87	25
BALANCE DUE			MONEY ORDER		

By Steven M. Nelson



AMERICAN AIRLINES

AIC ST. LOUIS INT ASK MR FOSTER

02 MAY 83 ST. LOUIS INT GEN DYNAMICS

LOVELACE/AM

ST LOUIS MO

2-114

26 54271 0/TQHZLT

ST. LOUIS INTL							
LOS ANGELES	TW	79	F	6MAY	1205P	OK	F
SAN DIEGO	AA	125		6MAY	720P	OK	Y
LOS ANGELES							VOID
ST. LOUIS INTL	TW	110	F	14MAY	1005A	OK	F

1200.33 6MAY STL TW LA1362.96 AA SAN82.41 LAX TW STL [illegible]

[illegible]1200.33

76.67

1285.00 TP 1001 10258 985/01

017/ 0147V156524

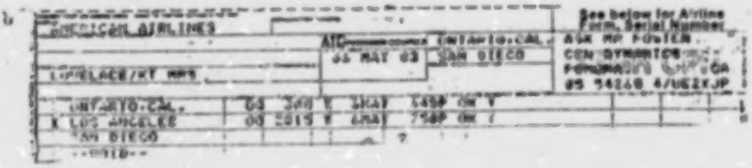
001 7179380953 3 0

0011

0K014100

3

coupon #2 returned used for credit



AMERICAN AIRLINES

AIC ONTARIO.CAL. ASK MR FOSTER

05 MAY 83 SAN DIEGO GEN DYNAMICS

LOVELACE/KT MRS

POMONA CA

05 54260 4/UEZXJP

ONTARIO.CAL.								
X LOS ANGELES	00	300	Y	3MAY	545P	OK	Y
SAN DIEGO	00	5015	Y	6MAY	750P	OK	Y
--VOID--							

ERAL DYNAMICS

EL REQUEST

Travel Request Number 14584

& Mrs. A. H. Lovelace 3891 110 5/4 5/14/83
Name Employee No. Dept. No. From Date To Date

	FROM (CITY)	DATE	TO (CITY)	TRIP PURPOSE (Omit if "sensitive" – limit disclosure to those who need to know)
	St. Louis		Los Angeles	Attend NASA Silver Anniversary Dinner
	Pomona			
13	Los Angeles			Attend Annual AIAA Meeting at Long Beach
	Los Angeles		St. Louis	

al Requirements: F ☒ Y ☐ United States - Canada ☒ Foreign ☐ Car Rental ☐

al Instructions

ervations Made By:

orporate Reservations 4/11/83
ame Date

D.M. Lovelace 4/27/83
Traveler's Signature Date

4/28/83
Department Head's Signature Date
Approval Authorized by Director of Admin

Authorized Travel Advance of Cash $ 400.00
Travelers Check $
Total $ 400.00

Nancy Bowe 5/4/83
Money Received by Traveler/Designee Date

5/4/83
Cashier's Signature Date

ctions

out form - sign. Obtain approval. Deliver by hand or internal mail dependent on time available. Original to Accounting, yellow to cashier (advance only), blue copy to Travel to authorize release of tickets and class of travel, retain pink copy for traveler's record.

is not available to complete a travel request, obtain verbal authorization for trip and inform the reservationist of Travel Request ... and complete form as soon as possible at a later date.

- If class of travel deviates from normal, authorization must be in writing. The Treasurer's office will issue travelers checks upon request.

[illegible]

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EXPENSE REPORT

NAME Dr. & Mrs. A. M. Lovelace	EMPLOYEE NO. 3891	DEPARTMENT NO. 110	PERIOD FROM 2/17	TO 2/19/83	TRAVEL REQUEST SERIAL NUMBER 12992

DATE	DESTINATION		CASH ADVANCE		TRANSPORTATION			HOTEL ROOM	MEALS (SELF)			OTHER (EXPLAIN ON REVERSE)	TOTAL * CASH EXPENSE
	FROM	TO	LOCATION	AMOUNT	CODE	PROVIDED AMOUNT	PURCHASED AMOUNT		B	L	D		
2/17	St. Louis	Dayton	CO	BF 81.00	BP	490. 490.		--	--	--	23.50	--	23.50
2/18	Dayton				L	67.24		--	--	42.20	254.40	--	296.60
2/19	Dayton	St. Louis						--	12.75	--	--	26.25	39.00
		TOTALS							12.75	42.20	277.90	26.25	359.10

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FEB ... 3

INSTRUCTIONS

1. Trip purpose(s) are to be recorded on the reverse side of this form.
2. Advances are to be settled every two weeks or at the end of each trip, whichever occurs first.
3. Attach receipts for all expenses, paid by company or employee.
4. Attach all unused transportation tickets.
5. Car mileage, car rentals, taxis, parking, tolls, hospitality, telephone, telegraph and gratuities should be listed in the OTHER column with an explanation on the reverse side.
6. Transportation codes — ATP airline credit card, BP company bought ticket, H Hertz, A Avis Company rental cars
7. Cash payment codes CA (Air), CR (rail).
* Cash advance location: Fill in with appropriate Division/Subsidiary location

EXPENSE SUMMARY

CASH ADVANCES BP 81.00
TOTAL CASH EXPENSE 359.10
REIMBURSEMENT DUE EMPLOYEE 278.10
REFUND DUE COMPANY 0

EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF THE REFUND MUST BE SUBMITTED WITH

APPROVALS

EMPLOYEE'S SIGNATURE A. M. Lovelace DATE 2/21/83

APPROVED BY DATE

202

202.

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DATE	NOTES AND EXPLANATION	AMOUNT:
2/18	Luncheon Conf. (3) Manufacturing Technology; Business conference thru dinner (4) - Manufacturing Technology	
2/19	Dog boarding 26.25	26.25

m-D

BUSINESS TRIP PURPOSE(S)

2/18	Manufacturing Technology

202.

…ÃMICS

EXPENSE REPORT

TRAVEL REQUEST SERIAL NUM… 1850

…E: Dr. & Mrs. A. M. Lovelace
EMPLOYEE NO. 3891
DEPARTMENT NO. 110
PERIOD FROM 11/2
TO 11/6/83

DATE	DESTINATION FROM / TO	CASH ADVANCE LOCATION	CASH ADVANCE AMOUNT	TRANSPORTATION CODE	TRANSPORTATION PROVIDED AMOUNT	TRANSPORTATION PURCHASED AMOUNT	HOTEL ROOM	MEALS (SELF) B	MEALS (SELF) L	MEALS (SELF) D	OTHER (EXPLAIN ON REVERSE)	TOTAL CASH EXPENSE
11/2	Kiawah Island	CO	-0-						18.50		35.75	54.2
11/7	St. Louis										42.00	42.0
	TOTALS				▨				18.50		77.75	96.25

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INSTRUCTIONS

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4. Attach all unused transportation tickets
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6. Transportation codes - ATP airline credit card, BP company bought ticket, H Hertz, A Avis Company rental cars.
7. Cash payment codes - CA (Air), CR (rail)
8. Cash advance location - Fill in with appropriate Division/Subsidiary location

* Do not include cost of company provided transportation

EXPENSE SUMMARY

CASH ADVANCES 0
TOTAL CASH EXPENSE 96.25
REIMBURSEMENT DUE EMPLOYEE 96.25
REFUND DUE COMPANY 0

EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF THE REFUND MUST BE SUBMITTED WITH THIS REPORT

APPROVALS

EMPLOYEE'S SIGNATURE A. M. Lovelace
DATE 11/11/83
APPROVED BY

…-727 269

204.

DATE	NOTES AND EXPLANATION	AMOUNTS
11/4	Gratuities 20.00; refreshments 15.75	35.75
11/7	Silver Maple Farm - Boarding for Fursten	42.00

BUSINESS TRIP PURPOSE(S)

Third Quarter Performance Review

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ENERAL DYNAMICS

IAVEL REQUEST

Travel Request Number 1859

, & Mrs. A. M. Lovelace (Name) 3891 (Employee No.) 110 (Dept. No.) 11/2 (From Date) 11/5/83 (To Date)

DATE	FROM (CITY)	DATE	TO (CITY)	TRIP PURPOSE (Omit if "sensitive" — limit disclosure to those who need to know)
1/2	St. Louis		Johns Island, SC	83 Third Quarter Performan Review
1/5	Johns Island, SC		St. Louis	

Travel Requirements: F☐ Y☐ United States - Canada☐ Foreign☐ Car Rental☐

ecial Instructions: travel via company plane

RECEIVED
NOV 2 1983

Reservations Made By:

Planning Department
Name Date

A.M. Lovelace 11/1/83
Traveler's Signature Date

11/1/83
Department Head's Signature Date
(Approval Authorized by Director of Above)

Authorized Travel Advance of Cash $
Travelers Check $
Total $ -0-

Monies Received By Traveler/Designee Date

Cashier's Signature Date

irections

ill out form - sign. Obtain approval. Deliver by hand or internal mail dependent on time available. Original to Accounting, yellow to cashier ash advance only), blue copy to Travel to authorize release of tickets and class of travel, retain pink copy for traveler's record.

f time is not available to complete a travel request, obtain verbal authorization for trip and inform the reservationist of Travel Request umber and complete form as soon as possible at a later date.

ote. If class of travel deviates from normal, authorization must be in writing. The Treasurer's office will issue travelers checks upon request.

GDC 034 11/83 10 C

NOV 3

C-3

ACCOUNTING COPY

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BUSINESS TRIP PURPO

Third Quarter Performance Review

RECEIPT Date 1/7 19 83 No. 5829

Received From Lovelace

Address

Forty-two and no/100 Dollars $ 42—

For Furatan Council

ACCOUNT			HOW PAID		
AMT OF ACCOUNT			CASH		
AMT PAID			CHECK	42—	
BALANCE DUE			MONEY ORDER		

Silver Maple Farm

By Cheryl Hopkins

Date

Date

...ed By Traveler/Designee

...ture

Req

Trav

...ntable. Original to Accounting, yellow to cashier
...tain pink copy for traveler's record.

...and inform the reservationist of Travel Request

...easurer's office will issue travelers checks upon

C-3

207

207.

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GENERAL DYNAMICS PRIVATE INFORMATION

EXPENSE REPORT

Page 2 81400

TRAVEL REQUEST SERIAL NUMBER 2609

NAME John J. Stirk	EMPLOYEE NO. 3653	DEPARTMENT NO. 710	PERIOD FROM 7/11/84	TO 7/24/84

DATE	DESTINATION		CASH ADVANCE		TRANSPORTATION			HOTEL ROOM	MEALS (SELF)			OTHER (EXPLAIN ON REVERSE)	TOTAL CASH EXPENSE
	FROM	TO	LOCATION	AMOUNT	CODE	PROVIDED AMOUNT	PURCHASED AMOUNT		B	L	D		
7/18	California						3.50 3.00	192.06	1.00			2.55 26.00	656.78
							4.00 4.00					420.07	
19	California						3.00 3.00	192.06	11.00	10.40		2.64 17.75	838.22
												556.51 29.27	
												2.55 2.36 2.55	
												5.13	
7/20	California						4.00 4.00	192.06				220.66 44.37	465.09
7/21	California								10.04			43.18 7.00	60.22
7/22	San Francisco, CA	Washington, DC					20.00 20.00						40.00
7/23	Washington						6.00 2.00 2.00 6.00						16.00
7/24	Washington						4.00						4.00
7/1	"LATE ENTRY"											30.00	30.00
	TOTALS					▨	207.56	1536.48	68.38	31.25		2581.53	4425.20

INSTRUCTIONS

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2. Advances are to be settled every two weeks or at the end of each trip, whichever occurs first.
3. Attach receipts for all expenses, paid by company or employee.
4. Attach all unused transportation tickets.
5. Car mileage, car rentals, taxis, parking, tolls, hospitality, telephone, telegraph and gratuities should be listed in the OTHER column with an explanation on the reverse side.
6. Transportation codes - ATP-airline credit card, BP-company bought ticket, H-Hertz, A-Avis Company rental cars.
7. [illegible]
8. [illegible]

EXPENSE SUMMARY

CASH ADVANCES 1,000.00

TOTAL CASH EXPENSE 4425.20

REIMBURSEMENT DUE EMPLOYEE 3425.20

REFUND DUE COMPANY ______

EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF THE REFUND MUST BE SUBMITTED WITH THIS REPORT.

APPROVALS

EMPLOYEE'S SIGNATURE John J. Stirk DATE

APPROVED BY 7/27/84

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DATE	NOTES AND EXPLANATION	AMOUN
7/23	TAXI--Ofc/Kst--6.00 TAXI--Hill/Kst--2.00 TAXI--Kst/Hill--2.00 TAXI--Kst/Ofc--6.00	
7/24	Parking--4.00	
	"LATE ENTRY"	
7/1	CLUB DUES(CAPITOL HILL CLUB)30.00	

BUSINESS TRIP PURPOSE(S)

7/12	Washington, DC/San Francisco, CA--Mr. & Mrs. Stirk attended 1984 Democratic Convention per EJL Approval.
7/22	San Francisco, CA/Washington, DC--Return

GENERAL DYNAMICS PRIVATE INFORMATION

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GENERAL DYNAMICS GENERAL DYNAMICS PRIVATE INFORMATION

EXPENSE REPORT

Page 1

NAME John J. Stirk	EMPLOYEE NO 3653	DEPARTMENT NO 710	PERIOD FROM 7/11/84	TRAVEL REQUEST SERIAL NUMBER 2609 TO 7/24/84

DATE	DESTINATION		CASH ADVANCE		TRANSPORTATION			HOTEL ROOM	MEALS (SELF)			OTHER (EXPLAIN ON REVERSE)	TOTAL CASH EXPENSE
	FROM	TO	LOCATION	AMOUNT	CODE	PROVIDED AMOUNT	PURCHASED AMOUNT		B	L	D		
7/11	Washington						2.00 5.00					100.00	107.00
7/12	Washington, DC	San Francisco, CA			BP BP	449.00 449.00	20.00 23.00 4.06					79.00 5.00 2.00	156.86
												2.00 21.80	
7/13	California						12.00	192.06	12.50	20.85		6.25 64.75	317.09
												2.55 2.45 4.18	
7/14	California						12.00	192.06	13.00			100.00	317.06
7/15	California						12.00 4.00	192.06	7.74			393.93 40.00	660.43
							4.00					2.26 2.29	
												2.15	
7/16	California						12.00	192.06				2.01 8.84	217.27
												2.36	
7/17	California						3.00 3.00 3.00	192.06	12.50			2.73 2.13 320.76	539.18
	TOTALS					▨							

INSTRUCTIONS

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6. Transportation codes - ATP-airline credit card, BP-company bought ticket, H-Hertz, A-Avis Company rental cars.
7. Cash payment codes - CA (Air), CR (rail).
8. Cash advance location - Fill in with appropriate division/subsidiary location.

[illegible]

EXPENSE SUMMARY

CASH ADVANCES ____________

TOTAL CASH EXPENSE ____________

REIMBURSEMENT DUE EMPLOYEE ____________

REFUND DUE COMPANY ____________

EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF THE REFUND MUST BE SUBMITTED WITH THIS REPORT

APPROVALS

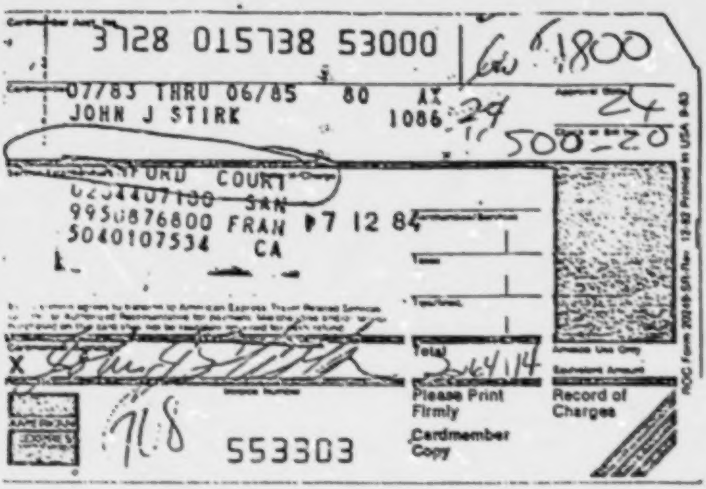
EMPLOYEE'S SIGNATURE DATE

APPROVED BY

210

GENERAL DYNAMICS PRIVATE INFORMATION

DATE	NOTES AND EXPLANATION		AMOUNTS
7/11	Mileage--Ofc/Hill/Ofc(10mi@.20mi)2.00 Parking--5.00	Prorated Share/Reception(Congressional Personnel) --100.00	
7/12	TAXI--Fairfax/Airport--20.00 TAXI--Airport/Hotel-CA--23.00	Gratuities--5.00,2.00,2.00 Share of 5 LIC Meetings(1 Jan-30 Jun)79.00	
	Garage Fee--4.06	BC-2(Democratic Convention)21.80	
7/13	Garage Fee--12.00	BC-4(Democratic Convention)64.75 Telephone Calls--2.25, 2.25, 4.18	
		Refreshments-4(Democratic Convention)6.2	
7/14	Garage Fee--12.00	BC-6(Democratic Conv)100.00	
7/15	TAXI--Hotel/Downtown SF--4.00 Garage Fee--12.00	BC-7(Democratic Conv)393.93 Telephone Calls--2.26, 2.29,2.15,	
	TAXI--Downtown SF/Hotel--4.00	Refreshments-7(Democratic Conv)40.00	
7/16	Garage Fee--12.00	Telephone Calls--2.01, 2.36 Room Service--8.84	
7/17	TAXI--Hotel/Downtown SF--3.00 TAXI--Downtown SF/Hotel--3.00	Telephone Calls--2.73, 2.13 BC-5(Democratic Conv)320.76	
[illegible]			
7/17	TAXI--SF/Hotel--3.00		
7/18	TAXI--Hotel/Downtown--3.50 TAXI--SF/Hotel--3.00	Telephone Calls--2.55 Refreshments-6(Demo Conv)- 26.0 BC-7(Demo Conv)420.07	
	TAXI--Hotel/Downtown SF--4.00 TAXI--Downtown/Hotel--4.00		
7/19	TAXI--Hotel/Downtown--3.00 TAXI--Downtown/Hotel--3.00	Telephone Calls--2.64, 5.13, 2.55, 2.36, 2.55 BC-7(Demo Conv)556.51 Refreshments-7(Demo Conv)- 17.75	
		BC-2(Demo Conv)29.27	
7/20	TAXI--Hotel/SF Downtown--4.00 TAXI--Downtown/Hotel----4.00	BC-7(Demo Conv)220.66 Refreshments-7(Demo Conv)44.37	
7/21		BC-4(Demo Conv)43.18 Refreshments-4(Demo Conv)7.00	
7/22	TAXI--Hotel/Airport--20.00 TAXI--Airport/Fairfax--20.00		



3728 015738 53000

6 1800

07/83 THRU 06/85 80 AX
JOHN J STIRK 1086

29

24

500-20

FORD COURT
0234407100 SAN
9950876800 FRAN 7 12 84
5040107534 CA

X

Total 364|14

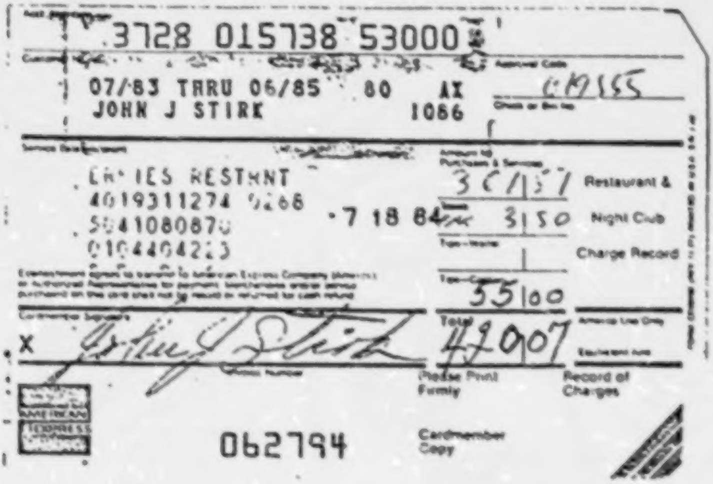
Please Print Firmly

Cardmember Copy

Record of Charges

718

553303



3728 015738 53000

07/83 THRU 06/85 80 AX
JOHN J STIRK 1086

CM155

CA IES RESTRNT
4019311274 0268
5041080870
0104404213

7 18 84

391|57

31|50

55|00

Restaurant & Night Club Charge Record

X John J Stirk

Total 478|07

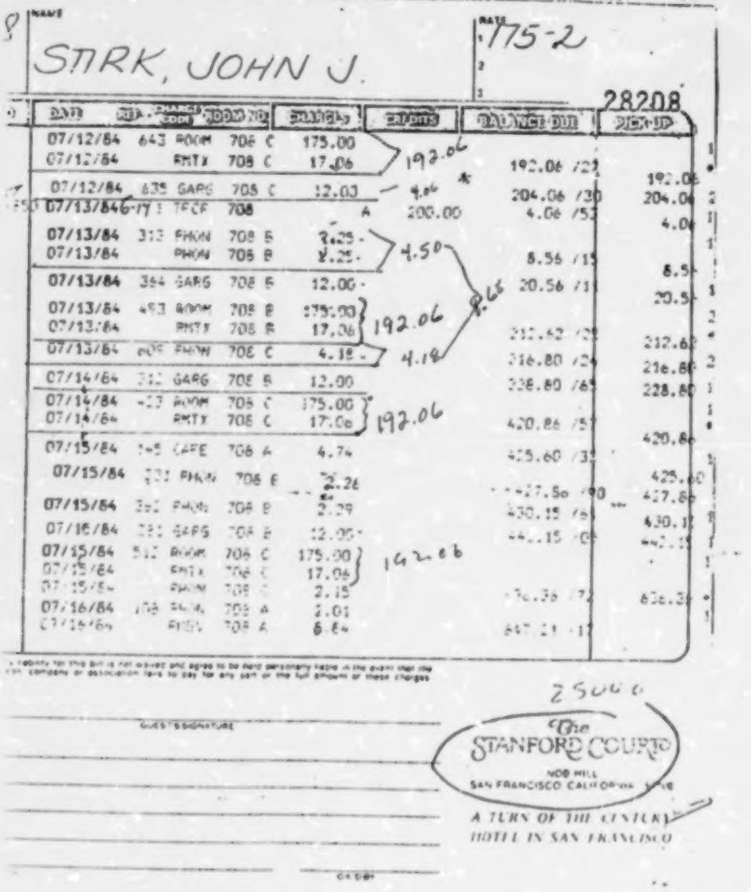
Please Print Firmly

Record of Charges

062794

Cardmember Copy

GENERAL DYNAMICS PRIVATE INFORMATION



NAME STIRK, JOHN J.

RATE 175-2

28208

DATE	REF.	CHARGE CODE	ROOM NO.	CHARGES	CREDITS	BALANCE DUE	PICK-UP
07/12/84	643	ROOM	708 C	175.00			
07/12/84		RMTX	708 C	17.06	192.06	192.06 /2	192.06
07/12/84	635	GARG	708 C	12.00	4.06	204.06 /30	204.06
07/13/84	6-17	TFCF	708	A	200.00	4.06 /5	4.06
07/13/84	313	PHON	708 B	3.25			
07/13/84		PHON	708 B	1.25	4.50	8.56 /1	8.56
07/13/84	364	GARG	708 B	12.00	8.68	20.56 /1	20.56
07/13/84	453	ROOM	708 B	175.00			
07/13/84		RMTX	708 B	17.06	192.06	212.62 /2	212.62
07/13/84	[illegible]	PHON	708 C	4.18	4.18	216.80 /2	216.80
07/14/84	[illegible]	GARG	708 B	12.00		228.80 /6	228.80
07/14/84	[illegible]	ROOM	708 C	175.00			
07/14/84		RMTX	708 C	17.06	192.06	420.86 /5	420.86
07/15/84	145	CAFE	708 A	4.74		425.60 /3	425.60
07/15/84	[illegible]	PHON	708 B	2.26		427.86 /90	427.86
07/15/84	[illegible]	PHON	708 B	2.29		430.15 /6	430.15
07/16/84	[illegible]	GARG	708 B	12.00		442.15 /0	442.15
07/15/84	[illegible]	ROOM	708 C	175.00	192.06		
07/15/84		RMTX	708 C	17.06			
07/15/84		PHON	708 C	2.15		636.36 /7	636.36
07/16/84	108	PHON	708 A	2.01			
07/16/84		PHEN	708 A	8.84		647.21 /1	

GUEST'S SIGNATURE

25000

The STANFORD COURT
NOB HILL
SAN FRANCISCO CALIFORNIA

A TURN OF THE CENTURY
HOTEL IN SAN FRANCISCO

GENERAL DYNAMICS PRIVATE INFORMATION

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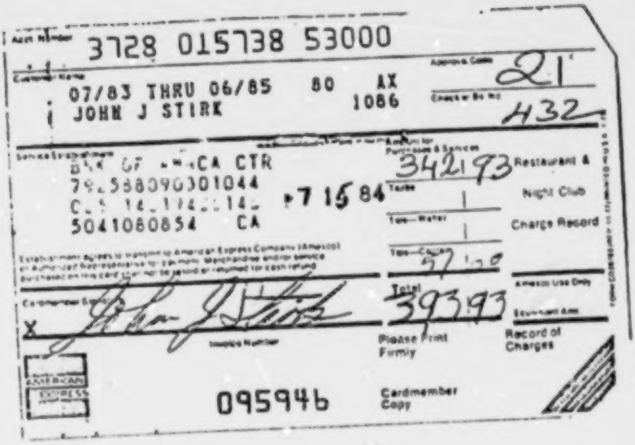


Acct Number 3728 015738 53000

Approval Code 21

07/83 THRU 06/85 80 AX

JOHN J STIRK 1086

Check or Bin No 432

BANK OF AMERICA CTR

79.558090301044

C.S 14.1174..14.

5041080854 CA

7 15 84

Amount for Purchases & Services 342 93

Taxes

Tips—Waiter

Tips—Captain 51 00

Total 393 93

Restaurant & Night Club Charge Record

Amexco Use Only

Please Print Firmly

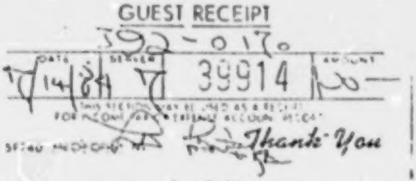
Record of Charges

X John J Stirk

AMERICAN EXPRESS

095946

Cardmember Copy

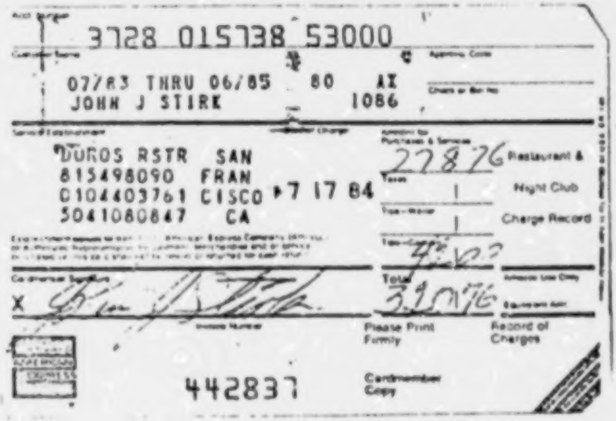


GUEST RECEIPT

392-0170

DATE	SERVER		AMOUNT
7/14/84	7	39914	20—

Thank You



Acct Number 3728 015738 53000

Approval Code

07/83 THRU 06/85 80 AX

JOHN J STIRK 1086

Check or Bin No

DUROS RSTR SAN

815498090 FRAN

0104403761 CISCO

5041080847 CA

7 17 84

Amount for Purchases & Services 278 76

Taxes

Tips—Waiter

Tips—Captain 42 00

Total 320 76

Restaurant & Night Club Charge Record

Amexco Use Only

Please Print Firmly

Record of Charges

X

AMERICAN EXPRESS

442837

Cardmember Copy

GENERAL DYNAMICS PRIVATE INFORMATION

B-2

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Mr. **Slattery**. Would the Chair yield for just a second. It's my time that I'm yielding away here. And I fully expect to seek reimbursement in the manner in which General Dynamics has done so generously from the taxpayers. If the gentleman from Ohio would yield, I have only about 30 seconds.

I just have a point relative to this whole line of questioning. I have information to indicate that General Dynamics also billed the Government $4,000 for a 12-day trip for a General Dynamics Washington office employee by the name of John Stirk to attend the Democratic Convention in San Francisco this last July.

Would you care to comment on that? I would like to know why it is the taxpayers of this country are being asked to send a representative of General Dynamics to the Democratic National Convention. I'm a Democrat, and I'm glad we had a crowd out there, but I'm concerned about the fact that $4000 of taxpayers' money was spent to send one of our good Democratic colleagues to San Francisco. I shouldn't say Democratic colleague. I should say good Democrat. And I've been advised that I shouldn't say that either. I don't want to assume Mr. Stirk is a good Democrat.

In all seriousness, let me just tell you Mr. Lewis, that before coming to this meeting today, before coming into this meeting today I left the Budget Committee hearing, and over in the Budget Committee we are attempting to try and deal with a $180 to $220 billion dollar deficit, depending on what baselines and whose numbers you are using. Let me just point out to you, Mr. Lewis, that we are talking about cutting Medicaid and Medicare and student loan programs, soil conservation, farm programs, virtually every program in the Federal budget. And the reason, we are told, we have to do this is so we can get the budget deficit down to $180 billion next year, is so that we can afford to defend the country and spend the requested amount for the Pentagon budget.

And I'll tell you something, it makes me damned mad to come over here and learn about these kinds of billings. It makes me awful mad. And when I go and hear about these plush corporate gatherings—and you can call them whatever you like, but I attended those kinds of things when I was in the private sector, and that's just what they are. They are more party than they are business, and you know that as well as I do, Mr. Lewis. And that's well and good. You can do that on your own money, but don't do it on my money and don't do it with the taxpayers' money of this country, because I think they are sick and tired of it.

Mr. **Dingell**. Would the gentleman yield to me? I'm sorry.

I have been looking here at the vouchers, and the vouchers on this are signed, Mr. MacDonald, by you, I observe, rather approved by you here at the bottom and the first one is Fursten boarding at Silver Maple Farm $87.25, and there's a proper receipt. It says "receipt received from Silver Maple Farm, $87.25." Then I further come down and I see here, as I go through these vouchers, it says here, at a later one it says Silver Maple Farm, boarding for Fursten, $42. Then another one it says dog boarding, $26.25. Is Fursten a dog?

Mr. **MacDonald**. I don't know what document you have, Mr. Chairman. May I see it, and I can answer it, maybe.

Mr. **Dingell**. Are the taxpayers paying for dog boarding?

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Mr. **MacDonald**. I wouldn't think so.

Mr. **Dingell**. Well, would you prayerfully consider the files and give us an answer whether or not the taxpayers are paying for dog boarding? And who is Fursten?

Mr. **MacDonald**. I will give you an answer right now. I will withdraw that $100 or whatever it was or $150 right now, sir.

Mr. **Dingell**. What I am trying to figure out is, are the taxpayers picking up dog boarding costs?

Mr. **MacDonald**. No.

Mr. **Lewis**. Absolutely not. They certainly should not. I don't know that they did approve that. I have no idea.

Mr. **Dingell**. Well, this is the expense account of Dr. and Mrs. A.M. Lovelace, and they are all submitted. They were not from my files. Fursten is in a document that's approved by you. It's entitled "Expense Report Employee 3891, Department No. 110, 5/14/83," and the item on the second page says "Fursten boarding at Silver Maple Farm, $87.25." And this is while the Lovelaces were at Kiawah Island.

Then I have here, a little further on I have an item which says dog boarding, $26.25, and again this is on an expense account which bears your signature as having approved it.

Mr. **MacDonald**. Yes; but you can't tell in that document, Mr. Chairman, whether or not that was excluded from our overhead claim or not. You can't tell from that document.

Mr. **Dingell**. This, I am told, is in the travel account.

Mr. **MacDonald**. That doesn't matter. The whole travel account is not necessarily in the claim.

Mr. **Dingell**. Okay. I'm told it was in an allowable account.

Mr. **MacDonald**. It may have been. I'm not sure.

Mr. **Dingell**. All right. Now, here we've got another item of $42.00. It says, "Silver Maple Farm, boarding for Fursten," and this is again signed by Lovelace, and it is, "Dr. and Mrs. A.M. Lovelace, 3891, Department 110, period from 11/2 to 11/6/83." Now, this is obviously a piddling matter, but I have to wonder how much we are getting in the way of submarines from you folks, and how much we are getting in the way of dog boarding.

Mr. **MacDonald**. We don't charge that stuff to the Government, Mr. Chairman.

Mr. **Dingell**. Well, I am going to have the GAO audit that account and give us an answer so we can find out whether you are charging us for dog boarding or whether you're charging us for missiles and submarines.

Mr. **Eckart**. I probably ought to just refer you back to the record. Mr. Lewis made it quite clear that the purpose of these meetings was for employees to get to know each other. Obviously, it's also for wives to get to know each other, and apparently for employees' dogs to get to know each other as well.

I tell you, I don't know whether we want to bark up that tree a whole lot more.

Mr. **Lewis**. As I read that, which is new to me, it sounded to me like they left the dog behind.

Mr. **Eckart**. I will yield to my friend from Kansas.

Mr. **Slattery**. I thank my colleague for yielding.

I want to come back to something, because I just came out of this Budget Committee hearing, and you can tell that I'm a little steamed by the choices we are going to have to be making. And I'll tell you something that really concerns me. You folks with General Dynamics—and I don't want to just single you folks out today, but people like you that are in the position where you are responsible for the manufacturing and production of weapons that this country depends on for its security, and the prices are absolutely beyond comprehension in many cases—I just want you to know that I am one of the people in this Congress that believes that we should have a strong national defense. It's our No. 1 responsibility.

But I'll tell you what people like you are doing, Mr. Lewis. You are responsible for what goes on over at General Dynamics. You are the chairman, you are the CEO over there. What you are doing with this kind of nonsense is undermining the consensus that is essential in this democracy to defend this republic. And I hold you personally responsible for that within General Dynamics.

We can laugh about this sort of thing, but it's the kind of thing that is darned difficult for us to go home and politically defend.

Now you and I both know that these weapons systems are complicated, horribly difficult to design, and enormously expensive, and I accept that. And I can accept the fact that there are occasional cost overruns. But the kinds of things that we are looking at today don't fall into that category.

And you, Mr. Lewis, have got to accept some responsibility for this. And I am going to come back on my own time and follow up on this.

But I just thank my colleague again for yielding.

This kind of conduct is absolutely unacceptable. Absolutely unacceptable. You ought to go back to your office this afternoon and start firing people who are responsible for this.

You have the authority to do that, Mr. Lewis, and I am going to followup to make sure that some heads roll in General Dynamics that were personally responsible for this sort of thing.

Mr. ECKART. Mr. MacDonald, let me pursue another line of questioning. On an earlier occasion you advised our staff that you knew that giving gifts to Government employees was illegal and contrary to your company's own policy; is this correct?

Mr. MACDONALD. That is correct.

[Testimony resumes on p. 249.]

[The following material was submitted:]

GENERAL DYNAMICS
Electric Boat Division

GENERAL DYNAMICS
PRIVATE INFORMATION

MEMORANDUM

TO: D. S. Lewis

DATE: February 15, 1978

FROM: P. T. Veliotis

FILE NO.:

SUBJECT: Special Disbursements

REFERENCE / Enclosures:
(a) My memo to you dated January 27, 1978
(b) W. B. Pedace memo dated 31 January 1978 and attachments
(c) E. B. Letter to Arthur Andersen and Co., dated 9 August 1977
(d) F. W. McNally letter dated February 11, 1978

During our discussions in Groton on 10 February 1978 concerning certain air charter matters, Ref. (a), I informed you that the Division was also reviewing certain other disbursements that had been made prior to my becoming General Manager. This review, like the report to you that appears in Ref. (a), was the result of unsolicited and unexpected information that has been volunteered to me by W. B. Pedace, Director of Special Services.

In November 1977, Mr. Pedace volunteered to me that he had information concerning certain jewelry matters which he would be willing to report privately. In this regard, Mr. Pedace told me, quite unrelated to anything we were discussing, that he "would not commit perjury". I told him that I had no interest in his doing so and asked him why he had volunteered the remark. He stated, in substance, that Mr. MacDonald had told him that he might have to do so in connection with the jewelry matters.

Mr. Pedace has now memorialized certain of the information he had orally conveyed, and I enclose a copy of his above-referenced memorandum thereon, Ref. (b), including its enclosures. Previously, on 9 August 1977, the Division reported to Arthur Andersen and Co., Ref. (c), that, among other things, "the Division has no 'sensitive' receipts or disbursements....". See paragraph 5 of Ref. (c). I am enclosing a copy of Ref. (c) in case this matter might warrant review by those responsible for preparation of certain of the Corporation's reports and information statements.

GENERAL DYNAMICS
PRIVATE INFORMATION

GENERAL DYNAMICS
PRIVATE INFORMATION

During our 10 February 1978 discussions I also informed you that we were reviewing the matter of a disbursement by Mr. Pedace to Mr. F. McNally, Director of Industrial Relations. I enclose a copy of Mr. McNally's above-referenced memorandum, Ref. (d), concerning this subject. For unrelated reasons I have been intending to terminate Mr. McNally's employment with the Division as soon as I am satisfied that we have found someone who appears to be a suitable replacement. The above-referenced memorandum does not dissuade me from this intention but I thought you should be aware of it in light of Mr. Pedace's involvement.

I am also concerned about Mr. Pedace's continued employment with this Division. In my judgment, Mr. Pedace has made unusual and abnormal efforts to report information to me of the sort discussed in this memorandum to you and its enclosures. Such efforts may result from a belief by Mr. Pedace that they will assist him in his employment, and may constitute an effort by him, of a most inappropriate character, to ensure the continuation of that employment. I would prefer not to have Mr. Pedace remain employed by this Division.

More generally, it appears from comments made to me by A. M. Barton, Division Comptroller, and J. Kornom, Public Relations Director, that other employes of this Division are aware of some of the matters referred to in this memorandum, including the jewelry matters. Our preliminary review of accounts for unreimbursed expenditures in 1977 prior to 24 October suggests other unusual disbursements of a possibly similar character, reflecting an absence of professional controls and judgment. (Because of severe time limitations on the only person I can entrust with such a review, it has remained at a preliminary stage.) I do not know the number or extent of unusual or sensitive matters that may have occurred. However, the present atmosphere of rumor, innuendo, and offers by such persons as Mr. Pedace to provide unusual information, is quite unsatisfactory.

It is my strong recommendation that appropriate staff from the Corporation's internal audit group be assigned to review thoroughly the disbursements described in this memorandum, including all information of irregular actions that may be disclosed as a result.

GENERAL DYNAMICS
PRIVATE INFORMATION

Ref. (b)

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

TO: P. T. Veliotis
Date: January 31, 1978
FROM: W. B. Pedace
FILE NO.:
SUBJECT: Gifts for ADM. H. G. Rickover
REFERENCE:

In early November, 1977 you questioned me regarding the arrangements that I normally made for ADM. Rickover when he visited Electric Boat. The conversation took place in Mr. Togneri's office with him present. At that time I voluntarily told you that in addition to the "normal" arrangements for Rickover, that I had also been directed by Mr. MacDonald to provide some rather unusual services for Rickover. I suggested that you and I could discuss these services in the privacy of your office. At that time you insisted that anything that I had to say, could be said in Mr. Togneri's presence. I continued on to relate that on a couple of occasions during 1977 that Mr. MacDonald had directed me to purchase jewelry for Mrs. Rickover. The following is as detailed account as I can remember regarding these incidents.

In June, 1977 Mr. MacDonald called me to his office to discuss an assignment. He told me that he wanted to buy some jewelry for Mrs. Rickover, that I was to use Company funds to buy it, charging to Entertainment of Division Guests and that I was to deliver it directly to ADM. Rickover in his Washington office. MacDonald indicated that it should be something nice, in the $400 to $600 range. I contacted Harvey Mallove for suggestions and he provided two (2) pair of earrings, one pair of 14K diamondearrings at $325 and another pair of 18K diamond earrings at $695. I returned to MacDonald's office with the earrings. He looked at them, picked the $695 pair and asked me to return the other pair to Mallove. He also told me to wrap the $695 pair and take them to ADM. Rickover's office and deliver them to him personally. The selected earrings were wrapped by Mallove and retained by me until ADM. Rickover was available. Before I left for Washington I contacted Rickover's secretary, Jean Scroggins to see if the Admiral would have a few minutes for me. She assured me that he would be in and would see me. I personally flew to Washington with the earrings. Before going to ADM. Rickover's office, I stopped in General Dynamics, Arlington, Va. office which is in the office building next to Rickover. I talked to Billy Kellum for a while until my appointment, then I left for Rickover's. Upon arrival at 08, Miss Scroggins, ADM. Rickover's secretary, escorted me to his office. After some brief discussions, I told the Admiral that I had something for him from Gorden MacDonald. He accepted the package, but did not open it in my presence.

84-00-0462 REV 7-73

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Memorandum to P. T. Veliotis
From: W. B. Pedace

I returned to the GD office where I waited for my flight home. About an hour later I got a call at Mr. Kellum's office from Gorden MacDonald. He said that the Admiral liked the gift, but was mad that it was in a Mallove's box. He wanted a plain box. I hung up, asked Kellum if there was a jeweler nearby, which there was, and left to buy a plain jewelry box. I bought the box and delivered it to Miss Scroggins in ADM. Rickover's office. Then I returned to Groton.

At this point I was left with the problem of paying for the gift. I was told by Mallove that he could bill Electric Boat in such a way as to hide the earrings. While I did not like it, I agreed. Mallove suggested that he could bill me for ten (10) watches (not delivered) that I normally purchased from him for retirees. He billed Electric Boat for an extra $625 in watches, and said that he would make up the other $70 at another time. This inflated bill was paid by Electric Boat invoice S228825.

Approximately one month later, MacDonald called me to his office and told me to get another piece of jewelry for Mrs. Rickover. I went to Mallove's and returned with a jade pendant and a jade bracelet, both $430. I believe, and Mallove confirmed, he picked the pendant and I delivered that ore to Rickover personally in the same manner as before. This item was paid for in the following way: I told Mr. D. Selby that I was on a special assignment for MacDonald and that I needed $500. I told him to fill out an Employe Expense Voucher for $500 which he did, I approved it and Selby picked up the money and gave it to me. Mr. Selby was not told what the money was for. I gave the money to Mallove to cover the $430 pendant and the $70 that still remained outstanding from the diamond earrings.

To the best of my knowledge the only people who knew what I was doing were MacDonald and I, and I suspect Mallove.

To the best of my knowledge, all of the information above is true and as accurate as my memory will permit.

W. B. Pedace

Ref. (b¹)

MALLOVE'S

Diamond Importers
74 CAPTAIN'S WALK
NEW LONDON, CONNECTICUT 06320
Jewelers since 1919
203/442-4391

January 31, 1978

Mr. William B. Pedace
Electric Boat Division
General Dynamics Corporation
Groton, Connecticut

Dear Mr. Pedace,

A review of our records shows that on June 2, 1977 you purchased a pair of diamond earrings for $695.00. We received a payment for Electric Boat's ten retirement watches and for $625.00 of the purchase price of the earrings. The check we received totaled $1284.00. It paid for the full amount of the ten watches and all but $70.00 of the balance on the earrings.

On [illegible] 21, 1977, you purchased a jade and diamond pendant for $430.00. On August 5, 1977 you paid us the amount of $500.00 which covered the full price of the jade pendant and the balance of the amount due for the earrings. The $500.00 was paid to us in cash.

We trust that the information contained herein covers any questions you may have about the transactions. Please feel free to call upon us for any other information we may have on this or other matters.

Very truly yours,

Harvey N. Mallove
MALLOVE'S

HNM:h

Ref. (b2)

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

TO: G. S. Grimes

Date: February 2, 1978

FROM: D. O. Selby, Sr.

FILE NO:

SUBJECT:

REFERENCE:

On or about August 4, 1977 (probably August 4, 1977, the date shown on the expense voucher in question), Bill Pedace (who was my boss at the time) told me to make out an expense account (report) for $500 for Entertainment of Division Guests and to give the money to him.

Bill said words to the effect that he was on a job for the boss. Without questioning Bill's direction, I made out the voucher, and he approved it. I went to the EBDiv Cashier, obtained the money and signed for the $500.00.

I turned the $500.00 in cash over to Bill without asking for a further receipt or signature from him. I did not then know nor do I now know what the money was used for by Bill Pedace.

Donald O. Selby Sr.

Ref. (c)

GENERAL DYNAMICS
Electric Boat Division
Eastern Point Road, Groton, Connecticut 06340 • 203 446-5960

August 9, 1977

Arthur Andersen & Co.
One Financial Plaza
Hartford, Connecticut 06103

Dear Sirs:

In connection with your review of the financial statements of Electric Boat, a Division of General Dynamics Corporation, for the three months and six months ended July 2, 1977, you have inquired whether we have knowledge of any significant facts not made known to you concerning the matters mentioned below. We understand that these matters have been reviewed or checked by you to the extent that they come within the scope of your examination. We give you our assurance, without undertaking to guarantee, that so far as we know:

(1) The balance sheet and statement of income properly reflect the financial position of the Division as of July 2, 1977, and the results of its operation for the three month and six month periods then ended on a basis consistent with that of the preceding year.

(2) As of July 2, 1977, the Division: (a) had satisfactory title to all assets, clear of any liens except as made known to you; (b) had no material unrecorded or contingent assets other than normal change orders on contracts and the anticipated revenue from the claims filed on the 688 program on December 1, 1976; (c) had no material unrecorded or contingent liabilities, including unasserted claims (on receivables sold or discounted, income taxes, deferred compensation plans, guarantees, warranties, lawsuits, etc.), other than those made known to you; (d) had no significant amount of excess or obsolete inventories that had not been reduced to net realizable values; and (e) had no compensating balance arrangements and no unused lines of credit for short-term financing or unused commitments for long-term financing.

(3) The subject of contingent liabilities (including potential but presently unasserted claims against the Division) and the desirability of their disclosure in the financial statements have been discussed with legal counsel. You have been informed of all matters of significance in this connection, including any recommendations of counsel.

Arthur Andersen & Co. — August 9, 1977
Page Two

(4) During the period, there were no compensating balance arrangements at any bank or other financial institution maintained by the Division for the benefit of an affiliate, director, officer, employee or other third party and no third party maintained any such compensating balance arrangements for the benefit of the Division.

(5) Since our letter to you of March 8, 1977 the following has transpired with respect to the SSN688 Program:

(a) The Navy continues to evaluate the claim using the technical services of the local Supervisor of Shipbuilding. Requests for more data and clarification continually arise. So far the Company has been able to provide the Navy with the data that they require.

(b) Several high level meetings have been held with the Navy regarding the Company's request for an equitable adjustment to the contract price. These meetings have not produced any unusual results. The Navy informs us that it is their intention to make an offer of settlement in August or September, 1977.

(c) The Company, at the highest levels, is evaluating alternative courses of action such as the possibility of shutting down the SSN688 Construction Program until the Navy responds in a fair and reasonable manner to the several requests we have made for progress payments.

(d) The Company has rescheduled the SSN688 Construction Program to deliver the SSN710 in August of 1982.

(e) The SSN690 was delivered in June of 1977 at a cost slightly in excess of the estimate contained in our March 8 letter.

(f) As a result of cost performance since March the estimate to complete for the first and second contracts is under review. The results of this review are expected to be completed by the end of August.

The Company sees no reason, at this time, to change its policy of recording neither a profit or a loss on this contract.

(6) The Division has entered into no material purchase commitments other than those which arise in the ordinary course of operations.

(7) No underwriter, promoter, director, officer, employee or principal holder of equity securities other than affiliates had an aggregate indebtedness to the Division for amounts in excess of $20,000 (or 1% of total assets, if that is a lesser amount) at July 2, 1977, or at any time during the period.

(8) This will inform you that, to the best of our knowledge, the Division has no "sensitive" receipts or disbursements or any unrecorded cash or non-cash funds out of which any such payments might be made. "Sensitive" receipts and disbursements, whether or not illegal, include: (a) receipts from or payments to governmental officials or employees, or (b) commercial bribes or kickbacks, or (c) amounts received with an understanding that rebates or refunds will be made in contravention of the laws of any jurisdiction, either directly or through a third party, or (d) political contributions, or (e) payments or commitments (whether cast in the form of commissions, payments or fees for goods or services received, or otherwise) made with the understanding or under circumstances that would indicate that all or part thereof is to be paid by the recipient to governmental officials or employees, or as a commercial bribe, influence payments or kickbacks.

(9) All transactions of the Division during the period with outside parties were conducted on an arm's-length basis; and to that end, none of the directors, officers, key employees (such as purchasing agent, departmental or Division managers, etc., as appropriate in each case), or holders of ten percent of any class of equity securities of the companies: (a) had any material direct or indirect ownership (other than through investment in publicly traded securities) or profit participation in outside business enterprises with which the Division had significant purchases, sales, borrowings, leases or other business transactions; or (b) had any material direct or indirect interest in transactions to which the Division was or is to be a party.

(10) Since July 2, 1977, there have been no events or transactions other than those reflected or fully disclosed in the financial statements that have a material effect on those statements, or which should be disclosed therein in order to make them not misleading.

GENERAL DYNAMICS
Electric Boat Division

Arthur Andersen & Co.
Page Four

August 9, 1977

(11) All accounting and financial records and related data of the Division were made available to you, and so far as we know, none of them were withheld from you.

The above information is for the confidential use of Arthur Andersen & Co. in accordance with the examination of the financial statements of General Dynamics Corporation and its subsidiaries and is not to be used for any other purposes.

Very truly yours,

G. E. MacDonald
General Manager

A. M. Barton

A. M. Barton
Division Comptroller

Ref. (d)

Date: February 11, 1978

TO: C. S. Grimes

FROM: Frank McNally

SUBJECT: Reimbursement for Forfeited Vacation Deposit

After receiving approval from the General Manager, I made arrangements for my wife and I to join a charter flight to Hawaii. The flight was scheduled to depart from Bradley Field on November 3, 1977, and to return to Bradley on November 11, 1977. The trip was chartered for the Connecticut Elks Association through Trans National Travel, Inc.

The total price of the trip amounted to $1,215.70, including a $30 increase in air tariff. In accordance with the instructions, I forwarded a $200 deposit to the Elks on September 13, 1977. A check for the balance of $1,015.70 was sent to Trans National Travel on October 3, 1977.

On October 19, 1977, Mr. MacDonald informed his staff that Mr. Veliotis would become General Manager on October 24, 1977. I became very concerned about my vacation plans and on October 21, 1977, reached a firm decision that it would be appropriate to cancel the vacation. The decision caused me some concern because I would be incurring a cancellation fee of $400 in accordance with the charter instructions.

I approached Bill Pedace on October 21, 1977, and told him of my decision to cancel the trip and the resulting $400 cancellation fee. I asked him if I could be reimbursed for the loss. In response to his question as to how sure I was that the loss would be incurred, I showed him the cancellation provisions. In addition, I told him that my wife had contacted Trans National by phone and confirmed the fact that a cancellation fee of $400 would be imposed. He said he would look into it and later in the day approved a disbursement voucher which I believe was prepared by his office. Late that same afternoon, he gave me a check for $400. Mr. Pedace asked me to see if I could sell my seats on the charter, and I informed him that I had tried with no success. He suggested that I try the WSUB "Swaps" program on October 22, 1977. I put the charter seats for sale on the program but received no response.

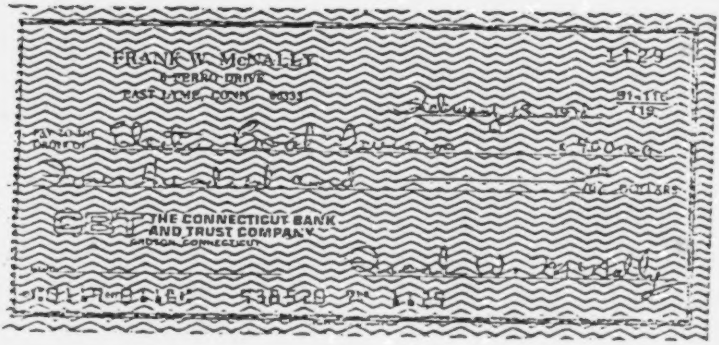
A letter was sent to Trans National on October 24, 1977, confirming our cancellation. On November 12, 1977, I received a check for $200 from Trans National, and I became alarmed that I was going to have difficulty getting the rest of the money back. In late November (approximately November 21), I received a check from Trans National for $1,015.70. This was $400 more than I expected to receive due to the fact that they did not charge a cancellation fee. Frankly, I expected a follow-up letter from Trans National explaining that they refunded too much money. No such letter was received. It is my understanding that Trans National had a full plane for the trip and had to reschedule it so that it departed on November 4 rather than November 3. These factors could have influenced Trans National to not impose the cancellation fee.

By mid December, I was aware that I was in the uncomfortable situation of having $400 of Electric Boat's money and not knowing the best way to give it back. Quite frankly, I judged the scene at Electric Boat to be very tense, and I didn't want to do something that might put Mr. Pedace in an awkward position. I might add that I did not inform Mr. Pedace of my refund. As a result, I made a conscious decision to hold onto the money until I was presented with an opportunity to return it. You presented me with that opportunity on February 9, 1978.

Frank McNally

Frank McNally

FM:cbm



FRANK W. McNALLY
[illegible] DRIVE
EAST LYME, CONN. [illegible]

1129

February 13, 1978

51-110
119

PAY TO THE ORDER OF Electric Boat Division $400.00

Four hundred and 00/100 DOLLARS

CBT THE CONNECTICUT BANK AND TRUST COMPANY
[illegible] CONNECTICUT

Frank W. McNally

Ref. (a)

GENERAL DYNAMICS

INTER-OFFICE MEMO

GENERAL DYNAMICS
PRIVATE INFORMATION

23 December 1977

To: R. E. Adams, M. R. Barlow, L. F. Buchanan, P. J. Gwyn, R. E. Hawes
E. T. Keating, F. H. Krantz, W. M. Lombardi, L. A. Muller,
M. E. Taschereau, P. T. Veliotis

cc: J. M. Beggs, L. Crown, G. W. Fiske, D. S. Lewis

From: G. E. MacDonald

Subject: Use of Charter Aircraft

1. Use of charter aircraft during the past year has increased significantly throughout the Corporation. This form of travel must be limited to use where regularly scheduled airline service is not satisfactory and/or where the time factor warrants its use. The cost effectiveness of such charter must also be a major consideration.

2. Effective immediately, prior approval for use of charter aircraft must be obtained from me or from another Executive Vice President of the Corporation.

Gorden E. MacDonald

RECEIVED
DEC 30 1977
GENERAL MANAGERS OFFICE
ELECTRIC BOAT DIVISION

GENERAL DYNAMICS

Ref. (c)

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

GENERAL DYNAMICS
PRIVATE INFORMATION

TO: P. T. Veliotis

Date January 24, 1978

FROM: W. B. Pedace

FILE NO.:

SUBJECT: Charter Flights

REFERENCE:

Mr. Gorden MacDonald frequently used jet charter flights rather than commercial flights during his stay here as General Manager. He usually made all the arrangements himself, and had the bills sent to me for payment. At some point during 1977 he called me in and instructed me to charge certain flights to 601-7990 (Entertainment of Division Guests). He explained that on the flights to the Chicago area, he was engaged in negotiations for the take over of Beech Aircraft and that he and Col. Crown felt that any charges associated with this activity not be charged to Electric Boat overhead. He further stated that by placing the charges for the Chicago flights in account 7990, that they would not be available to the DCAA or the Navy for audit. From that point on, I reviewed all the invoices with Mr. MacDonald and he would indicate which ones would be charged to 601-6601 (Travel) or 601-7990 (Entertainment).

When Mr. MacDonald left Electric Boat in October, 1977, he directed me to contact him in St. Louis in the event anyone was checking on charter flights, so that he could call them directly with an explanation for the flights which were charged to 601-7990. At that time, I directed Mr. William Wilcox, Accounts Payable Supervisor, to call me when and if anyone was checking into the charter flight accounts.

On or about January 6, 1978, Mr. Wilcox called me to say that he had been requested to review the charter flight accounts by Mr. Barton for Mr. Grimes.

That same day, I called Mr. MacDonald in St. Louis and told him that Mr. Grimes had requested a review of charter flights. I also talked to Mr. Grimes that afternoon, told him that I had talked to MacDonald, and that he (Mr. Grimes) could expect a phone call from MacDonald to explain the Chicago flights.

On or about January 11, 1978 I received a call from Mr. MacDonald, requesting a list of the flights charged to 601-7990 with a total dollar figure so that he could prepare a check for that amount. He wanted to send the check to me so that I could pay Electric Boat for these flights. I asked him to please call Barton or Grimes, because I felt that I had done as he had directed and that to do anymore would be inappropriate. He said that he would call Barton.

The next morning I reported the MacDonald conversation to Barton and told him that he could expect a call. Barton reported this to Mr. Grimes.

On or about January 12, 1978 I was called to Mr. Grimes' office and told him all that I knew on this subject of charter flights. He asked if I called MacDonald, or MacDonald called me on the 6th of January. I told him that I called MacDonald, as I had been instructed.

I have also been asked by Barton and Wilcox to assist them in compiling a list of charter flights during 1976 and 1977. During the past two weeks I have provided much information to Mr. Wilcox by phone.

W. B. Pedace

W. B. Pedace

GENERAL DYNAMICS

GENERAL DYNAMICS
PRIVATE INFORMATION

Ref. (d)

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

TO: P. Takis Veliotis

Date January 25, 1978

FROM: W. C. Wilcox - Dept. 613

FILE NO.:

SUBJECT: Charter Flights

REFERENCE: Request from G. S. Grimes

The following is a statement of my involvement in paying charter flight expenses for G. M. MacDonald.

In the Spring of 1977, I was contacted by William Pedace regarding the charging of charter flight expenses for Mr. MacDonald. Several flights had been charged to Division overhead which Mr. MacDonald wanted to be transferred to an unreimbursable account. Several days after the initial contact from Mr. Pedace, I received a telephone call from Mr. MacDonald regarding the handling of the paperwork for his charter flights. During the telephone conversation, Mr. MacDonald instructed me to notify either Mr. Pedace or himself if any inquiries regarding the charter flights were made.

On January 6, 1978 I received a request from Mr. Grimes' office for a list of all charter flights taken during 1977. I immediately called Mr. Pedace to inform him of the request. I subsequently received a call from Mr. Pedace stating that Mr. MacDonald should be personally contacted if any information regarding the charter flights charged to unreimbursable expenses for Mr. MacDonald is needed.

W. C. Wilcox
W. C. Wilcox
Accounts Payable Supervisor

WCW:lka

RECEIVED

JAN 25 1978

GENERAL MANAGERS OFFICE
ELECTRIC BOAT DIVISION

GENERAL DYNAMICS
PRIVATE INFORMATION

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GENERAL DYNAMICS
PRIVATE INFORMATION

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

TO: Mr. D. S. Lewis

Date: January 27, 1978

FROM: P. T. Veliotis

FILE NO.:

SUBJECT: Use of Charter Aircraft

REFERENCE: / Enclosures:
(a) G. E. MacDonald memo dated 23 December 1977
(b) A. M. Barton memo dated 23 January 1978, with enclosures
(c) W. B. Pedace memo dated 24 January 1978
(d) W. C. Wilcox memo dated 25 January 1978

Upon receipt of Mr. MacDonald's memorandum, Ref. (a), noting a significant increase in the use of charter aircraft by the Corporation during 1977 and requiring approval by him or another Executive Vice President for any such future use, Mr. Grimes routinely inquired of the Division Comptroller, Mr. Barton, as to the Division's use of charter aircraft in 1977.

The result of Mr. Grimes' inquiry is reflected in the memoranda, Ref. (b), (c) and (d), from Mr. Barton, Mr. Pedace and Mr. Wilcox. The Division is now in receipt of a letter from Mr. MacDonald of January 13, 1978 listing personal trips taken by him and his wife on aircraft chartered by the Division from February 4, 1977 through July 14, 1977, and is also in receipt of a personal check from Mr. MacDonald payable to General Dynamics Corporation in the amount of $26,879.47.

I am transmitting this information to you because of the nature of the matters involved. Mr. MacDonald has not communicated directly with me concerning these matters. It is my recommendation that this Division accept and process the subject check.

Please advise me how you wish me to proceed in this matter.

Veliotis

GENERAL DYNAMICS
PRIVATE INFORMATION

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM Ref. (b)

GENERAL DYNAMICS
PRIVATE INFORMATION

TO: P. T. Veliotis

Date January 23, 1978

FROM: A. M. Barton

FILE NO.:

SUBJECT: Air Travel on Privately Chartered Flights

REFERENCE:

Enclosures: (1) Memo, G. S. Grimes to A. M. Barton, dated 1-5-78.
(2) Listing of EBDiv. 1977 Charter Flights.
(3) Memo, G. E. MacDonald to A. M. Barton, dated 1-13-78.
(4) Check

Enclosure (1) requested a listing of the Division's use of chartered aircraft for the year 1977. After this memo was issued Mr. Pedace discussed the subject matter with Mr. MacDonald, since at Mr. MacDonald's instruction, these costs were charged to an unallowable cost account and further, Mr. MacDonald left instructions with Mr. Pedace that if any inquiry was made in this area Mr. Pedace should advise him. Mr. Pedace informed Mr. MacDonald that any further information on the matter would have to be obtained from either myself or Mr. Grimes. Mr. Pedace also informed me and Mr. Grimes of the conversation he had had with Mr. MacDonald.

A listing, Enclosure (2), of all such trips was prepared and given to Mr. Grimes for review. On Friday, January 13th, Mr. MacDonald contacted me and asked for the dates, amounts and destinations of all charter flights which were charged to the unallowable cost accounts. I provided him with this information. He informed me that he was sending me a memo and a check to pay for those flights which he considered to be personal and also identifying those flights which he considered to be business expense and properly chargeable as such. Enclosure (3) is a copy of the memo and Enclosure (4) is a copy of the check.

The appropriate accounting treatment for this would be to credit the amount of the check to the account against which these expenses were charged, thus eliminating the costs from Electric Boat's books and treating them as an advance that has been reimbursed. I request your concurrence in making the appropriate accounting adjustments.

A. M. Barton
A. M. Barton

RECEIVED

JAN 23 1978

GENERAL MANAGERS OFFICE
ELECTRIC BOAT DIVISION

GENERAL DYNAMICS

JAN 0 1977

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

PRIVATE INFORMATION

TO: A. M. Barton

Date January 5, 1978

FROM: G. S. Grimes

FILE NO.:

SUBJECT: Use of Charter Aircraft

REFERENCE: (a) G. E. MacDonald memo dated 23 December 1977, same subject

Please provide me with a breakdown of E. B. Division's use of charter aircraft for 1977. Indicate dates, amounts and individual involved.

GSGrimes

G. S. Grimes

GENERAL DYNAMICS

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ELECTRIC BOAT DIVISION

PAGE 1

VOUCHER	DATE OF FLIGHT (1977 PAYMENTS)	AMOUNT	PRIVATE [illegible] PASSENGERS	DESTINATION	AIRLINE
55594	12/22/76	116.90	A. GREVET/REED	GROTON TO SARATOGA SPGS	AIR KAMAN
159879	12/22/76	183.60	" "	SARATOGA TO GROTON	" "
162410	1/11/77	278964	MACDONALD/KEEFER	PROVIDENCE TO WASHINGTON	
~~[illegible]~~	~~[illegible]~~	~~[illegible]~~	~~R. [illegible]~~	CHARLESTON/G	" "
162763	1/13/77	15240	R. JASPER [illegible]/SHAFFER	SARATOGA SPGS TO GROTON	" "
162784	1/12/77	20760	" "	GROTON TO SARATOGA	" "
172903	2/4/77	272970	MACDONALD	GROTON TO CHICAGO	" "
180489	3/1/77	320544	MACDONALD	GROTON TO ST LOUIS	" "
181571	3/3/77	253903	MACDONALD	CHICAGO TO GROTON	" "
184577	3/4/77	255744	MACDONALD	CHICAGO TO GROTON	" "
189621	3/18/77	284806	MACDONALD	GROTON/CHICAGO/GROTON	" "
189622	3/19/77	505062	MACDONALD	GROTON/CHICAGO/GROTON	" "
190256	3/25/77	274806	MACDONALD	GROTON/CHICAGO	" "
193138	3/22/77	137700	MACDONALD	GROTON/WASHINGTON/GROTON	" "
193139	3/28/77	282096	MACDONALD	CHICAGO/WASHINGTON/GROTON	" "
193468	4/1/77	274604	MACDONALD	GROTON/CHICAGO	" "
202263	4/15/77	257094	MACDONALD	GROTON/CHICAGO	" "
203050	4/14/77	38000	NONE INDICATED	SARATOGA SPRINGS/GROTON/GROTON	" "
204652	4/22/77	274806	MACDONALD	GROTON/CHICAGO	" "
205319	4/29/77	287226	MACDONALD	GROTON/WASH/CHICAGO	" "
207955	5/2/77	137966	MACDONALD	WASHINGTON/LOUISVILLE/GROTON	JET AMERICA INT
209066	5/9/77	32767	MACDONALD	NY TO GROTON	AIR KAMAN
211409	5/6/77	274806	MACDONALD	GROTON/CHICAGO	" "
213591	5/13/77	122634	GEN MGR'S OFFICE	GROTON TO WASH DC	" "
214672	5/18/77	132448	MACDONALD	WASH DC/GROTON/WASH DC	JET AMERICA INT.
216847	5/20/77	274806	MACDONALD	GROTON/CHICAGO	AIR KAMAN
216848	5/16/77	119232	MACDONALD	WASH DC/GROTON	" "
216849	5/23/77	32767	NONE INDICATED	NY/GROTON	" "
216850	5/13/77	119232	MACDONALD	WASHINGTON/ TO GROTON	" "
216851	5/17/77	140200	MACDONALD	[illegible] TO GROTON	" "
217625	5/31/77	3210	NONE INDICATED	NY TO GROTON	" "
220594	6/1/77	132407	MACDONALD	WASH/GROTON/WASHINGTON	JET AMERICA INT.
225664	6/6/77	119232	MACDONALD	GROTON/[illegible]/GROTON	AIR KAMAN
225665	6/3/77	[illegible]	MACDONALD	GROTON/[illegible]/GROTON	" "
225666	6/13/77	523712	MACDONALD	GROTON/KANSAS AND RETURN	" "
229469	2/24/77	320544	GEN MGR'S OFFICE	GROTON TO ST LOUIS	" "
231970	6/28/77	481831	[illegible]/MACDONALD/[illegible]/DRAKE	GROTON/[illegible]/WASH/GROTON	PRESIDENTIAL AIRWAYS

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1977 [illegible]

ELECTRIC BOAT DIVISION — FILE 2

GENERAL DYNAMICS
PRIVATE INFORMATION

VOUCHER	DATE OF FLIGHT	AMOUNT	PASSENGERS	DESTINATION	AIRLINE
234207	6/18/77	5239.08	MacDonald	Groton/Chicago & Return	Air Kaman
237239	6/28/77	756.00	No Passengers/Flight Cancelled		" "
238545	7/14/77	2748.06	MacDonald	Groton/Chicago	" "
244103	7/25/77	1208.98	MacDonald	Wash/Groton/Wash	Jet America Int
244492	7/27/77	2748.06	MacDonald	Groton/Chicago	Air Kaman
246015	7/30/77	5496.12	MacDonald	Groton/Chicago/Groton	" "
253081	8/8/77	326.26	None indicated	Bradley/Newark/Groton	" "
255268	None indicated	302.30	Lucas	Hartford/Groton/Groton	Corporate Air Inc
257256	8/24/77	1192.32	None indicated	Providence/Wash/Groton	Air Kaman
261896	9/2/77	798.37	Dunnenberg/Genuine Cramer/Berton/Imada	Wash to Groton	" "
264120	9/9/77	353.32	None indicated	Newark/Groton	" "
268109	9/19/77	357.40	None indicated	Newark/Groton	" "
270406	9/26/77	252.00	Gen Mgr's Office	Newark/Groton	" "
272074	9/27/77	2352.76	Gen Mgr's Office	Groton to Chicago	Wm. Clark Company
273115	9/21/77	1504.40	MacDonald	Groton/Wash/to Groton	Air Kaman
273366	10/3/77	1332.12	Gen Mgr's Office	Wash/Groton/Wash	Jet America Int
274422	10/4/77	328.32	Gen Mgr's Office	Groton/Newark	Air Kaman
276160	10/6/77	321.12	Gen Mgr's Office	Bradley/Newark/Groton	" "
276972	10/7/77	2748.06	Gen Mgr's Office	Groton/Chicago/Groton	" "
283744	10/12/77	1431.09	Gen Mgr	Washington to Groton	Jet America Int
284467	10/20/77	3139.94	Gen Mgr	Groton to St. Louis/Groton	Air Kaman
284468	10/17/77	1276.34	Gen Mgr	Groton to Wash	" "
289355	12/11/77	95.00	Gen Mgr	Groton to [illegible]	Costal Air Services
307722*	9/14/77	426.00	Lucas & RV Pierce	Saratoga/Groton/Saratoga	Air Kaman
VOUCHERS OUT OF SEQUENCE					
214621	None indicated	259.43	MacDonald/Selby	Groton/NY/Groton Selby	Corporate Air Inc
225658	[illegible]/77	563.00	MacDonald	Groton/Wash	Costal Air Services
		109394.28			

* Paid in 1978

GENERAL DYNAMICS [illegible]

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PRIVATE INFORMATION

TOTAL [illegible]	[illegible]
NON - REIMBURSIBLE	51,05[illegible]
REIM[illegible]	50,01.17

GENERAL DYNAMICS
PRIVATE INFORMATION

[illegible]

GENERAL DYNAMICS
PRIVATE INFORMATION

Art Barton:

I appreciate the information as I requested as I want to be certain these expenses are properly recorded prior to the 1977 year end.

The personal trips that Marilyn and I took for which payment by me is due are as follows:

	$
2/4/77 -	2,729.70
3/7/77 -	2,533.03
3/14/77 -	2,557.44
3/25/77 -	2,748.06
4/1/77 -	2,748.06
4/15/77 -	2,570.94
4/22/77 -	2,748.06
5/6/77 -	2,748.06
5/20/77 -	2,748.06
7/14/77 -	2,748.06
Total Due	$26,879.47

Enclosed is my personal check to cover the $26,879.47 due per above.

The following expenses are properly charged to business expense at

GENERAL DYNAMICS

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indicated -

GENE[illegible]
PRIVATE INFORMATION

3/18/77 - Bank meeting on credit line and 688 Status review - return for Admiral Bryan discussions.

3/19/77 - After Navy meeting return to Bank meeting and return to Groton.

3/28/77 - Various meetings with Navy and with Director of GD on retirement plans and return to Groton -

4/29/77 - Various meetings with Navy and with Director of GD on retirement and Audit Committee plans and return.

6/10/77 - Bank meeting on GD (US) standing credit lines -

6/18/77 - Meeting with Chicago Banks in preparation for renewal of the GD credit agreement and return

[illegible]RAL DYN[illegible]
[illegible]ATE INFORMATION

7/22/77 - Meeting with A.A. regarding 688 Program Status and Second Quarter earnings and return -

GENERAL DYNAMICS
PRIVATE INFORMATION

7/30/77 - Meeting with major banks of CD credit line to finalize the new agreement and return.

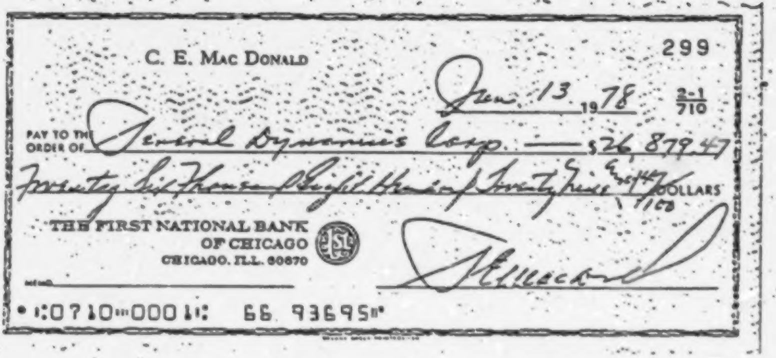
I hope the above is satisfactory and clears up all of my outstanding advances.

Many thanks again -

1/13/78

GENERAL DYNAMICS
PRIVATE INFORMATION

GENERAL DYNAMICS
PRIVATE INFORMATION



C. E. MAC DONALD

299

Jan. 13 1978

2-1
710

PAY TO THE ORDER OF General Dynamics Corp. —— $26,879.47

Twenty Six Thousand Eight Hundred Twenty Nine 47/100 DOLLARS

THE FIRST NATIONAL BANK
OF CHICAGO
CHICAGO, ILL. 60670

MEMO

⑆0710⑈0001⑆: 66 93695⑈

GENERAL DYNAMICS
PRIVATE INFORMATION

MEMORANDUM

TO: File

FROM: John H. Henn

DATE: January 18, 1978

Question Presented

Where a company division's funds have apparently been used to pay an officer's personal expenses of a particular type, and where that officer offered to reimburse or did reimburse the division for those payments subsequent to a general company inquiry into the foregoing type of expenses, what reporting requirements does the division have?

Conclusion

The division itself probably has a duty to report the matter to the chief executive officer or other officer of the company to whom the division normally reports. The division itself has no legal obligation to report the matter to anyone outside the company, although the company may have an obligation under the Federal securities laws to disclose the matter in its pertinent reports or information statements.

Discussion

A. Considerations under Connecticut Law

1. Personal use of division funds

It is possible that this matter could involve a larceny under pertinent Connecticut law: Conn. Gen. Stats. §53a-119 (Supp. 1977). Larceny is there defined to include:

> "(1) Embezzlement. A person commits embezzlement when he wrongfully appropriates to himself or to another property of another in his care or custody.
>
> (2) Obtaining property by false pretenses. A person obtains property by false pretenses when, by any false token, pretense or device, he obtains from another any property, with intent to defraud him or any other person."

There are four statutory degrees of larceny, which vary according to the value of the property involved as follows: (1) over $2000; (2) over $500; (3) over $50; and (4) $50 or less. Id. §§53a-122-53a-125. The first two degrees of larceny are felonies; the latter two are misdemeanors.

For present purposes, the critical element of the crime (the two types of larceny described above) is an intent to deprive the owner (i.e., the company) of its property or to appropriate that property to oneself. The following definitions (from Conn. Gen. Stats. §53a-118) help clarify when this intent may be found to exist:

> (3) To "deprive" another of property means
>
> (A) to withhold it or cause it to be withheld from him permanently or for so extended a period or under such circumstances that the major portion of its economic value or benefit is lost to him, or
>
> (B) to dispose of the property in such manner or under such circumstances as to render it unlikely that an owner will recover such property.
>
> (4) To "appropriate" property of another to oneself or a third person means
>
> (A) to exercise control over it, or to aid a third person to exercise control over it, permanently or for so extended a period or under such circumstances as to acquire the major portion of its economic value or benefit, or
>
> (B) to dispose of the property for the benefit of oneself or a third person.

Intent is determined as of the time the property was appropriated or obtained. An intent to return stolen property or to make restitution is not a defense, if larcenous intent is found to have existed at the time of the alleged crime. But in all cases, however: "Intention is a mental process, and of necessity it must be proved by the statement or act of the person whose act is being scrutinized ... 'A person's intention in any regard is to be inferred from his conduct' ... and ordinarily can be proven only be circumstantial evidence." State v. Vars, 154 Conn. 255, 263 (1966) (citations omitted).

2. Obligations, if any, to report such use to Connecticut authorities

It does not appear that the division would be under any obligation or duty to report the facts of the matter discussed in this memorandum to Connecticut authorities. Four sources for any such duty have been considered: misprision (the common law crime of failing to report a crime); compounding (the common law crime of not reporting or prosecuting a crime for a consideration); the crime of being an accessory; and the crime of hindering prosecution.

Only the crime of hindering prosecution (Conn. Gen. Stats. §53a-165) seems to have any possible relevance. But the statute requires an "intent to prevent, hinder or delay the discovery or apprehension of, or the lodging of a criminal charge against, a person whom [one] knows or believes has committed a felony". This statute appears to create no duty of disclosure to Connecticut authorities. It also appears to create no barrier to the division's accepting restitution of the above-mentioned funds, although the division should be careful to take no actions which might circumstantially appear to suggest that it intended to prevent the possible lodging of a criminal charge. As to this last point, it would seem preferable for the division to require an accounting from the foregoing officer in explanation of any reimbursement-payment, rather than simply accept a facially ambiguous and unexplained payment (by check or otherwise).

B. Federal Securities Law Considerations

The division probably should disclose the above-mentioned payments to the appropriate company executive officer for possible transmission to those in the company responsible for preparing the company's reports and information statements governed by the Federal securities laws. This is so because of the strong position taken by the Securities and Exchange Commission concerning disclosure of management remuneration, including personal benefits or "perquisites".

In SEC Release No. 33-5856, 34-13872, dated August 18, 1977 (CCH Fed. Sec. Law Rep. ¶23,019 [1977]), the Commission stated its view that existing statutory disclosure provisions require disclosure of certain personal benefits and "perquisites" to officers and directors whenever a registrant or reporting company is required to disclose the compensation paid to management. In this Release, the Commission specifically described, as among the benefits to be reported, "(3) the personal use of company property such as automobiles, planes, yachts, apartments, hunting lodges or company vacation houses; (4) personal travel expenses". Id., at p. 17,059-6.

Although the company's pertinent reports and information statements were presumably prepared and issued at a time when the preparers were unaware of the foregoing payments, and although the company may be reimbursed for the payments, the company officers who are responsible for compliance with the Federal securities laws should have the opportunity to consider whether the fact of past payments and their reimbursement would be material to the company's disclosures concerning management compensation. In that connection, the officers should have some basis for determining that the amount reimbursed fairly reflects the whole amount of the company's funds previously applied to personal uses. Therefore, it would be preferable for the division to request a written accounting from the officer in question in connection with acceptance of any reimbursement-payment, rather than merely accepting what may appear to be a lump-sum, unexplained payment.

Mr. **Eckart**. If you knew such policy and practice to be wrong, why did you direct subordinates in July and August of 1977 to buy and deliver expensive jewelry for Admiral Rickover?

Mr. **MacDonald**. May I explain it?

Mr. **Eckart**. You can answer it and explain it, I would hope.

Mr. **MacDonald**. All right, I will answer it in the explanation. We have had a practice in the whole shipbuilding industry over the years to give gifts to the sponsors in the keel laying and launching of any kind of a ship, and this was a practice. And the gift generally at Electric Boat was a silver dish engraved with the person's name on it and the name of the particular submarine.

And there were other gifts given out at the same ceremony such as pendants and things of that sort. The silver dish itself ran right around $1,000.

On an occasion, I believe it was in June or July, I'm not sure which, of 1977, Admiral Rickover asked me if in view of the fact that his wife was never a sponsor and never had been and never would be, being the wife of the Admiral, if it wouldn't be appropriate, because of all of her efforts, devoting her life to the Navy and to his projects, the nuclear submarine program, that she receive a gift of that type. I don't know whether "of that type' is right or not, but a gift.

It appeared to me that that was not out of line. She would not ever be a sponsor. She had been there many, many times and so, I did have someone buy two pieces of jewelry that totaled $1,125. I did not look at that as a gift, in terms of the size of the gift.

Mr. **Eckart**. That was your assessment. Did you seek corporate counsel as to the questions of the propriety of giving gifts to either an admiral in the United States Navy or the wife of an admiral in the United States Navy with whom you had a contractual obligation?

Mr. **MacDonald**. Well, to the best of my knowledge—let me back up for a minute. I did not talk to counsel. No, I did not. Counsel either at Electric Boat or at the corporate office.

But I did do—I believe to the best of my recollection—that I did discuss it with Mr. Lewis. I don't know whether I discussed it with him before or after I purchased the first piece of jewelry. I don't know whether I made a special call to him, but I did talk to Mr. Lewis many times a week, many times two or three times a day. I could have discussed it with him at that point. But to the best of my recollection, I discussed it with Mr. Lewis.

Mr. **Eckart**. Well, the previous testimony in an earlier line of questioning was that you didn't seem to know about an $18,000 country club membership, but you took up with the chairman of the board a $1,000 silver plate to an admiral?

Mr. **MacDonald**. Wait a minute. You didn't ask me any question about an $18,000 membership, but I will answer it. That should not have been charged to overhead, that would be recoverable by the Government.

Mr. **Dingell**. But it was so charged?

Mr. **MacDonald**. I don't know that as a fact. I've got a note to check it as soon as I get home.

Mr. **Dingell**. Was it in an allowable account?

Mr. **MacDonald**. It should not have been.

Mr. DINGELL. Well, suppose it was?

Mr. MACDONALD. Then I will pull it out.

Mr. DINGELL. But you were indicating, though, that it could have been in an allowable account.

Mr. MACDONALD. I don't know.

Mr. DINGELL. We're going to request that the GAO audit and inform us of whether this was in an allowable account.

Mr. MACDONALD. I don't know, Mr. Chairman.

Mr. ECKART. Mr. MacDonald, you didn't talk about the country club fees with Mr. Lewis, yet you claim there are a lot of things which you do within your own independent operation of your functions there as an officer. But you chose to raise with the chairman of the board the purchase of a $1,000 piece of jewelry for an admiral's wife?

Mr. MACDONALD. Yes. To the best of my recollection, I did discuss it with him.

Mr. ECKART. Well, does that not ring a bell that you felt some compunction to raise this purchase with the chairman of the board? I mean, why would you do that if you normally didn't do that on items totaling millions of dollars?

Mr. MACDONALD. Because it was a little bit out of the ordinary.

Mr. ECKART. Oh, you can see that it was out of the ordinary. If you can see that it was out of the ordinary in your own mind, then why would you not seek corporate counsel and perhaps be advised that this could violate a Federal felony statute, and in fact, even violated General Dynamics' own corporate policy?

Mr. MACDONALD. Well, I didn't believe at the time that I was violating any corporate or——

Mr. ECKART. But you felt sufficiently intimidated by the prospect to make sure that your immediate superior knew that you were doing it and would either approve or not disapprove it.

Mr. MACDONALD [continuing]. I was not intimidated.

Mr. ECKHART. Sufficiently questioned.

Mr. DINGELL. What did Mr. Lewis say when you talked to him about this matter?

Mr. MACDONALD. Mr. Chairman, I don't recall. That was 8 years ago and I can't remember what he said.

Mr. DINGELL. Did he say to go ahead or did he say to not go ahead?

Mr. MACDONALD. I don't know.

Mr. DINGELL. What did you say when he talked to you, Mr. Lewis?

Mr. LEWIS. I have no memory of that telephone call at all. My memory of hearing of this, of these two gifts being given, was in early 1978.

Mr. DINGELL. What is your first recollection of this back in 1978?

Mr. LEWIS. My recollection is that on one visit to Electric Boat, that Veliotis showed me a copy of a report from one of his people describing the fact that they had done that. It was either a memorandum or maybe it was oral. But I remember hearing it in a meeting in his office.

Mr. DINGELL. Would the gentleman yield further?

Mr. ECKART. You may proceed.

Mr. DINGELL. Mr. MacDonald, who procured this gift?

Mr. MacDonald. A gentleman named Bill Pedace. He was a staff man for me at time.

Mr. Dingell. And he did that on your instructions?

Mr. MacDonald. Yes, he did.

Mr. Dingell. How was this gift vouchered through the books of General Dynamics?

Mr. MacDonald. I don't know how it was vouchered, but I have seen some letters that relate to this particular gift.

Mr. Dingell. What do those letters say?

Mr. MacDonald. I don't have to quote them verbatim, do I?

Mr. Dingell. Give us your best recollection and then we will ask for the letter. [See p. 218.] Go ahead.

Mr. MacDonald. That Mr. Pedace had told Veliotis that I had instructed him to go out and buy the jewelry and deliver it to the admiral, and I believe I had been told by I think this committee's staff that there was a question of whether I directed Mr. Pedace to change the documentation or falsify or something like that.

Mr. Dingell. Did you tell him to falsify the vouchers?

Mr. MacDonald. Absolutely not.

Mr. Dingell. Absolutely not? What did you tell Mr. Pedace about the vouchers?

Mr. MacDonald. I told him that I would like him to obtain the piece of jewelry and deliver it to the and don't talk about it.

Mr. Eckart. Why would that be the position?

Mr. MacDonald. Well, one other piece that goes with that is "and make sure it does not get charged to a Government contract."

Mr. Dingell. What is Mr. Pedace doing today?

Mr. MacDonald. He works at Electric Boat.

Mr. Dingell. What is his position there?

Mr. MacDonald. I believe he's in public affairs.

Mr. Dingell. As a matter of fact, he's assistant general manager of Electric Boat, isn't he?

Mr. MacDonald. No, he is not. Unless we just did it yesterday.

Mr. Dingell. He is in charge of public affairs?

Mr. MacDonald. Yes.

Mr. Dingell. How was this gift charged? To what account at General Dynamics was this gift charged?

Mr. MacDonald. At Electric Boat, anything that is not to be chargeable to the Government goes into an account. I don't know the name of the account, but it is segregated completely from the Government claim cost.

Mr. Dingell. You have no knowledge of how it was charged?

Mr. MacDonald. I've been told it was not charged to the Government contract, as I directed.

Mr. Dingell. Mr. Lewis, did you have a written report on this matter prepared by your lawyers?

Mr. Lewis. No.

Mr. Dingell. Did you, Mr. MacDonald?

Mr. MacDonald. No.

Mr. Dingell. There ever been a report or a study inside the corporation on this event?

Did you ever request an outside attorney by the name of Mr. Edwards to study this matter and prepare a report. Did you ever hear of an outside attorney by the name of Edwards?

Mr. **Lewis.** I understand that Mr. Edwards prepared a report on this matter in very recent days. But I was thinking that in the period of time of the gift giving I don't think we had any counsel report.

Mr. **MacDonald.** Yes; the Navy matter.

Mr. **Lewis.** That's what I mean. In recent weeks.

Mr. **Dingell.** Would you submit that report to the committee, please?

Mr. **Lewis.** First let me make sure I understand. I don't believe that we had counsel involved in this in the time period of 1977 or 1978. I have no memory of that.

Now, as I understand it, the material that was submitted to Secretary Lehman's gratuities commission, or whatever he calls it, is their business. And I feel it's appropriate that that request that you just made come through the Navy.

Mr. **Dingell.** Was the report submitted by Edwards to the Navy, or was it submitted to you?

Mr. **Lewis.** It was submitted to the Navy.

Mr. **Dingell.** It was submitted to the Navy? Who was Mr. Edwards working for? For you or the Navy?

Mr. **Lewis.** He is working for us.

Mr. **Dingell.** He is working for you and he submitted the report to the Navy?

Mr. **Lewis.** He prepared the report—I haven't seen the report that you're referring to, but I know that he was working on this issue of gratuities for Rickover, for our company.

Mr. **Dingell.** Was he working for Rickover or for you?

Mr. **Lewis.** He was working on the issue of gifts for Rickover, for our company.

Mr. **Dingell.** Who did he make his report to?

Mr. **Lewis.** I'm sure he submitted the report to counsel in our company.

Mr. **Dingell.** Are you making a copy of it?

Mr. **Lewis.** I don't know what our legal obligation is with respect to that investigation.

Mr. **Dingell.** Your legal responsibility at this particular time is to provide the report as a part of this investigation, to this committee on the request of its chairman.

Mr. **Lewis.** I will certainly be delighted to check with counsel, Mr. Chairman, and hopefully they will give me an answer that you find acceptable.

Mr. **Dingell.** I hope that we have your early and adequate cooperation with the committee in its request in this matter.

Mr. Lewis, the committee brought to Secretary Lehman's attention the fact that the gifts to Mr. Rickover may have violated the gratuities clause found in the SSN 668 class and the Trident contract between the Navy and General Dynamics. Have you or anyone else at General Dynamics either contacted or been contacted by Secretary Lehman or any other Navy officials regarding this matter?

[The following letters and excerpt were submitted:]

NINETY-EIGHTH CONGRESS

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CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

ROOM 2323
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 225-4441

July 25, 1984

The Honorable John Lehman
Secretary of the Navy
Department of the Navy
The Pentagon
Washington, D. C. 20350

Dear Secretary Lehman:

In accordance with the provisions of the Rules of the House, the Subcommittee on Oversight and Investigations has been conducting an investigation into various allegations made by P. Takis Veliotis, former Executive Vice President and Member of the Board of Directors of the General Dynamics Corporation. In the course of this investigation, the Subcommittee staff has uncovered information that indicates that Electric Boat officials provided apparently questionable gratuities to a naval officer who played a major role in managing the contracts for the 688 attack and Trident submarines at the Electric Boat Division of General Dynamics.

As you know, Clause 54 of the 688 contract (similar clauses are included in all Navy shipbuilding contracts) provides for the termination of the contract upon a finding that "gratuities (in the form of entertainment, gifts, or otherwise) were offered or given by the Contractor ... to any officer or employee of the Government with a view toward securing a contract or securing favorable treatment with respect to the awarding or amending, or the making of any determinations with respect to the performing of such contracts; provided, that the existence of the facts upon which the Secretary or his duly authorized representative makes such findings shall be in issue and may be reviewed in any competent court."

The Subcommittee has obtained various internal General Dynamics documents which indicate that Mr. Gordon McDonald, the General Manager at Electric Boat, as well as an Executive Vice President of General Dynamics and a Member of the Board of Directors, directed a subordinate to buy and deliver expensive jewelry to the office of a naval officer in Washington. The subordinate claimed that Mr. McDonald told him that he might have to commit perjury if asked about the jewelry.

The documents also indicate that the books and records of the Electric Boat Division were falsified in order to disguise the jewelry as retirement watches. We have been told that this was not an isolated incident.

On August 9, 1977, Mr. McDonald certified the following to Arthur Andersen and Company, the General Dynamics auditors:

> This will inform you that, to the best of our knowledge, the division has no "sensitive" receipts or disbursements or any unrecorded cash or non-cash funds out of which such payments might be made. "Sensitive" receipts and disbursements, whether or not illegal, include: (a) receipts from or payments to government officials or employees ...".

On February 10, 1978, P. Takis Veliotis informed Mr. David S. Lewis, Chairman of the Board and Chief Executive Officer of General Dynamics, about the gratuities to the naval officer and other questionable payments. Mr. Veliotis memorialized their conversation in a February 15, 1978 memorandum to Mr. Lewis. Mr. Lewis has confirmed the substance of the memorandum to the Subcommittee. Mr. Lewis admits he took no action against any General Dynamics employee and did not report this incident to the Navy, the auditors, or the Securities and Exchange Commission.

General Dynamics officials have informed the Subcommittee that they provided these gifts to the naval officer because "he was in a powerful position and could have done us a lot of damage."

Therefore, it appears that General Dynamics officials arranged the purchase and delivery of substantial gratuities to a naval officer who played a major role in managing multi-billion dollar contracts at Electric Boat. These General Dynamics officials caused the books and records at Electric Boat to be falsified in order to conceal the gratuities. The Chairman of the Board of General Dynamics was told about these gratuities and took no corrective or remedial action.

On its face, this conduct appears to be a clear and knowing violation of Clause 54 of the 688 attack submarine contract which calls for the termination of that contract as well as the Trident contract at Electric Boat.

Please inform me by Friday, August 3, 1984, concerning the actions you plan to take to enforce Clause 54 or otherwise make inquiry about General Dynamics and the apparent violation of their Navy contracts. Please contact Michael Barrett or Peter Stockton of the Subcommittee staff at 225-4441 to arrange for access to documents and other information.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD:PSdb

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DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

3 August 1984

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This is in reply to your 25 July letter concerning allegations that General Dynamics Corporation provided valuable gifts to a senior naval officer with responsibilities for SSN 688 and TRIDENT submarine programs.

The Navy and Justice Department have both opened investigations into these allegations. In response to your offer to review relevant material in your possession, Ms. Margaret Olsen of the Navy Office of General Counsel will contact your staff today.

Once our investigation is completed you may be assured we will take whatever action is warranted by the evidence. I'll keep you informed.

Sincerely,

John Lehman
Secretary of the Navy

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Subcommittee on
Oversight and Investigations

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108-27

questions on particular items in the report from members of the Committee. Mr. Jenner inquired about the cost overruns on overhaul work at Electric Boat. Mr. MacDonald explained that in the past, the Navy has insisted that additional work be performed at cost, without additional fee, which Electric Boat has accepted. He stated that he had advised the Navy that the Company had no intention of continuing this practice on new overhaul work.

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The Committee reviewed the status of the 688 Program and the Navy claims. Mr. MacDonald reported upon a meeting which he and Mr. Lewis had held with Admiral Bryant. Mr. MacDonald stated that Admiral Manganero had indicated that by August 15, 1977, he would be prepared to sit down and offer a provisional payment and to commence negotiations on the underlying claims.

Mr. MacDonald stated that Admiral Rickover was disturbed by the reports which had appeared in the media

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DYNAMICS CORPORATION

concerning some [illegible],000 revisions to drawings, and that Admiral Rickover had sent an 18-man team to Electric Boat to perform an audit. Mr. MacDonald stated that, as a result of the so-called audit, Admiral Bryant had advised that he was transmitting a letter to the Corporation expressing concern about the ability of the Yard to meet production schedules and to improve productivity. Mr. MacDonald stated that he had informed Admiral Bryant that he would be meeting with the Executive Committee and the Board, and that there was deep concern over the fact that the remainder of the divisions within the Corporation were being forced to support a very heavy cash drain at Electric Boat. Mr. MacDonald stated that he informed Admiral Bryant that the Board might determine to close the Yard down, so that future costs of production would be reimbursed by the Navy, thereby reducing the continual negative cash flow to the Corporation.

Mr. **Lewis.** In response—Well, this commission investigated us. Yes, they did interview me and other members of our company.

Mr. **Dingell.** Have you had any contact with Mr. Lehman, or has he had any contact with you?

Mr. **Lewis.** On this subject? I don't believe so. Not since you wrote the letter to him requesting his comments.

Mr. **Dingell.** I observe here, Mr. MacDonald, that the internal documents of General Dynamics show that you reported to the board of directors in July 1977 that an 18-man team of auditors under the leadership of Admiral Rickover had made an audit of operations at the Electric Boat yard and had submitted recommendations for operational and organizational changes. Did you make such a report to the board?

Mr. **MacDonald.** I may have, I'm not sure of the exact date.

Mr. **Dingell.** It is, I believe, in the minutes of the board.

Mr. **MacDonald.** If it's in the minutes, then I did.

Mr. **Dingell.** I observe that the report was made in July of 1977. The gifts were made in July and and August of 1977. Can you inform us of when Mr. Rickover announced his impending visit by the 18-man team?

Mr. **MacDonald.** Probably about an hour before they arrived.

Mr. **Dingell.** Can you tell me when the team arrived at Electric Boat?

Mr. **MacDonald.** No, I can't. I don't have the date with me. I wasn't being facetious on that, Mr. Chairman, that is the way he visited.

Mr. **Dingell.** How many people normally conducted audits for the Navy?

Mr. **MacDonald.** If you refer to the Admiral it can be anywhere from 5 to 15, 20. They do have permanent representatives there, Mr. Chairman. That is probably—including the ships' crews that are up there, probably 900 to 1,000 people from the Navy at any one time.

Mr. **Dingell.** Why did you select Mr. Pedace to deliver the gift and to purchase the gift, or gifts, for Admiral Rickover?

Mr. **MacDonald.** Because he's the one who normally purchased the gifts for the sponsors of the ships.

Mr. **Dingell.** That was his job?

Mr. **MacDonald.** Well, that's one of the things he did.

Mr. **Dingell.** Were these gifts reported to the SEC or to the Navy?

Mr. **MacDonald.** No.

Mr. **Dingell.** They were not?

Mr. Lewis, would you add your knowledge to that? Were these gifts reported to the SEC or the Navy?

Mr. **Lewis.** Not to my knowledge. No, sir.

Mr. **Dingell.** Now, you were audited shortly after these events by Arthur Andersen, were you not?

Mr. **MacDonald.** Yes, They audited in the year 1977.

Mr. **Dingell.** And this audit occurred very shortly after the gifts of jewelry to Admiral Rickover, isn't that correct?

Mr. **MacDonald.** No, there's a lot of the work that is done throughout the year, but the primary effort is at the end of the year. There was a quarterly look required, I believe, at that time.

Mr. **Dingell.** Didn't you certify to Arthur Andersen, the independent auditors, that you did not know of any questionable payments made at Electric Boat?

Mr. **MacDonald.** Yes, I did.

Mr. **Dingell.** You did?

Mr. **MacDonald.** Yes.

Mr. **Dingell.** Were these legal or illegal payments?

Mr. **MacDonald.** I did not consider them, at the time I signed that document, to be gifts. As a matter of fact, it didn't even come to my mind.

Mr. **Dingell.** Well, here is what you said. You said, "This will inform you * * *" I will insert the entirety of this document into the record. "This will inform you that to the best of our knowledge, the Division has no sensitive receipts or disbursements or any unrecorded cash or noncash funds out of which any payments may be made. Sensitive receipts and disbursements, whether or not illegal, include receipts from or payments to Government officials or employees, or (*b*) commercial bribes or kickbacks; or (*c*) amounts received with an understanding that rebates or refunds will be made in contravention of the laws of any jurisdiction, whether either directly or through a third party; or (*d*) political contributions; or (*e*) payments or commitments that were cashed in the form of commissions, payments or fees for goods or services received or otherwise made with the understanding or under circumstances that would indicate that all or part thereof is to be paid by the recipient to governmental officials or employees—or as a commercial bribe, influence payments or kickback * * *"

[The document referred to follows:]

GENERAL DYNAMICS
Electric Boat Division
Eastern Point Road, Groton, Connecticut 06340 • 203 446-5960

August 9, 1977

Arthur Andersen & Co.
One Financial Plaza
Hartford, Connecticut 06103

Dear Sirs:

In connection with your review of the financial statements of Electric Boat, a Division of General Dynamics Corporation, for the three months and six months ended July 2, 1977, you have inquired whether we have knowledge of any significant facts not made known to you concerning the matters mentioned below. We understand that these matters have been reviewed or checked by you to the extent that they come within the scope of your examination. We give you our assurance, without undertaking to guarantee, that so far as we know:

(1) The balance sheet and statement of income properly reflect the financial position of the Division as of July 2, 1977, and the results of its operation for the three month and six month periods then ended on a basis consistent with that of the preceding year.

(2) As of July 2, 1977, the Division: (a) had satisfactory title to all assets, clear of any liens except as made known to you; (b) had no material unrecorded or contingent assets other than normal change orders on contracts and the anticipated revenue from the claims filed on the 688 program on December 1, 1976; (c) had no material unrecorded or contingent liabilities, including unasserted claims (on receivables sold or discounted, income taxes, deferred compensation plans, guarantees, warranties, lawsuits, etc.), other than those made known to you; (d) had no significant amount of excess or obsolete inventories that had not been reduced to net realizable values; and (e) had no compensating balance arrangements and no unused lines of credit for short-term financing or unused commitments for long-term financing.

(3) The subject of contingent liabilities (including potential but presently unasserted claims against the Division) and the desirability of their disclosure in the financial statements have been discussed with legal counsel. You have been informed of all matters of significance in this connection, including any reccomendations of counsel.

(4) During the period, there were no compensating balance arrangements at any bank or other financial institution maintained by the Division for the benefit of an affiliate, director, officer, employee or other third party and no third party maintained any such compensating balance arrangements for the benefit of the Division.

(5) Since our letter to you of March 8, 1977 the following has transpired with respect to the SSN688 Program:

(a) The Navy continues to evaluate the claim using the technical services of the local Supervisor of Shipbuilding. Requests for more data and clarification continually arise. So far the Company has been able to provide the Navy with the data that they require.

(b) Several high level meetings have been held with the Navy regarding the Company's request for an equitable adjustment to the contract price. These meetings have not produced any unusual results. The Navy informs us that it is their intention to make an offer of settlement in August or September, 1977.

(c) The Company, at the highest levels, is evaluating alternative courses of action such as the possibility of shutting down the SSN688 Construction Program until the Navy responds in a fair and reasonable manner to the several requests we have made for progress payments.

(d) The Company has rescheduled the SSN688 Construction Program to deliver the SSN710 in August of 1982.

(e) The SSN690 was delivered in June of 1977 at a cost slightly in excess of the estimate contained in our March 8 letter.

(f) As a result of cost performance since March the estimate to complete for the first and second contracts is under review. The results of this review are expected to be completed by the end of August.

The Company sees no reason, at this time, to change its policy of recording neither a profit or a loss on this contract.

(6) The Division has entered into no material purchase commitments other than those which arise in the ordinary course of operations.

(7) No underwriter, promoter, director, officer, employee or principal holder of equity securities other than affiliates had an aggregate indebtedness to the Division for amounts in excess of $20,000 (or 1% of total assets, if that is a lesser amount) at July 2, 1977, or at any time during the period.

(8) This will inform you that, to the best of our knowledge, the Division has no "sensitive" receipts or disbursements or any unrecorded cash or non-cash funds out of which any such payments might be made. "Sensitive" receipts and disbursements, whether or not illegal, include: (a) receipts from or payments to governmental officials or employees, or (b) commercial bribes or kickbacks, or (c) amounts received with an understanding that rebates or refunds will be made in contravention of the laws of any jurisdiction, either directly or through a third party, or (d) political contributions, or (e) payments or commitments (whether cast in the form of commissions, payments or fees for goods or services received, or otherwise) made with the understanding or under circumstances that would indicate that all or part thereof is to be paid by the recipient to governmental officials or employees, or as a commercial bribe, influence payments or kickbacks.

(9) All transactions of the Division during the period with outside parties were conducted on an arm's-length basis; and to that end, none of the directors, officers, key employees (such as purchasing agent, departmental or Division managers, etc., as appropriate in each case), or holders of ten percent of any class of equity securities of the companies: (a) had any material direct or indirect ownership (other than through investment in publicly traded securities) or profit participation in outside business enterprises with which the Division had significant purchases, sales, borrowings, leases or other business transactions; or (b) had any material direct or indirect interest in transactions to which the Division was or is to be a party.

(10) Since July 2, 1977, there have been no events or transactions other than those reflected or fully disclosed in the financial statements that have a material effect on those statements, or which should be disclosed therein in order to make them not misleading.

(11) All accounting and financial records and related data of the Division were made available to you, and so far as we know, none of them were withheld from you.

The above information is for the confidential use of Arthur Andersen & Co. in accordance with the examination of the financial statements of General Dynamics Corporation and its subsidiaries and is not to be used for any other purposes.

Very truly yours,

G. E. MacDonald
General Manager

A. M. Barton

A. M. Barton
Division Comptroller

Mr. DINGELL. That is what you informed Arthur Anderson of, is that right?

Mr. MACDONALD. I believe that's correct, yes.

Mr. DINGELL. And this was on August 9; is that right?

Mr. MACDONALD. I believe that's right, yes.

Mr. DINGELL. Just a few days after the gifts in question were delivered to Admiral Rickover.

Mr. MACDONALD. I believe that's right.

Mr. DINGELL. Now, to what account were these charged?

Mr. MACDONALD. They were treated the same as the gifts to the sponsors. They would not be claimed.

Mr. DINGELL. How were they billed? Were they billed as a silver bowl and other things?

Mr. MACDONALD. Oh, yes.

Mr. DINGELL. They were billed as a silver bowl?

Mr. MACDONALD. It's just like you go down to the store and buy something; a piece of jewelry like that, and it says silver platter, *x* number of dollars.

Mr. DINGELL. Our auditors tell me they were billed as 10 retirement watches.

Mr. MACDONALD. That's what I've been told.

[The following documents were submitted:]

Ref. (b¹)

MALLOVE'S
Diamond Importers
74 CAPTAIN'S WALK
NEW LONDON, CONNECTICUT 06320
Jewelers since 1919
203/442-4391

January 31, 1978

Mr. William B. Pedace
Electric Boat Division
General Dynamics Corporation
Groton, Connecticut

Dear Mr. Pedace,

A review of our records shows that on June 2, 1977 you purchased a pair of diamond earrings for $695.00. We received a payment for Electric Boat's ten retirement watches and for $625.00 of the purchase price of the earrings. The check we received totaled $1284.00. It paid for the full amount of the ten watches and all but $70.00 of the balance on the earrings.

On July 21, 1977, you purchased a jade and diamond pendant for $430.00. On August 5, 1977 you paid us the amount of $500.00 which covered the full price of the jade pendant and the balance of the amount due for the earrings. The $500.00 was paid to us in cash.

We trust that the information contained herein covers any questions you may have about the transactions. Please feel free to call upon us for any other information we may have on this or other matters.

Very truly yours,

Harvey N. Mallove
MALLOVE'S

HNM:h

Notes of Decisions

Forfeitures 3
Purpose 1
Retroactive effect 2

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1. Purpose

Former section 572a of Title 28 was intended to permit a debtor to agree to compensate his attorney in such amount as he saw fit, provided that such compensation was not to be paid from the assets of the estate, and the compensation agreed to was payable after the jurisdiction of the court over the estate had been ended and the case had been finally closed by order of the court. In re Trans-State Oil Co., D.C.Tex.1938, 24 F.Supp. 454, reversed on other grounds 99 F.2d 658, 38 Am.Bankr.Rep.N.S. 110.

2. Retroactive effect

The fact that former section 572a of Title 28 had been enacted after agreements among the interested fee claimants were made, rendered criminal provisions inapplicable to members of bondholders' protective committee and reorganization committee, but the allowance of any compensation claimed by committee and its attorneys under agreement fixing fees would have constituted a violation of subdivision (b) of such former section 572a. In re Memphis Street Ry. Co., D.C.Tenn.1939, 28 F.Supp. 228, 41 Am.Bankr.Rep.U.S. 427, conforming to mandate 86 F.2d 891, modified on other grounds 110 F.2d 677.

3. Forfeitures

Former section 572a of Title 28 did not authorize a forfeiture of reasonable compensation, actually earned, for the services. Zweifel, Tuohy & Crager v. Trans-State Oil Co., C.C.A.Tex.1938, 99 F.2d 658, 38 Am.Bankr.Rep.N.S. 110.

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18 U.S.C. 201

CHAPTER 11—BRIBERY, GRAFT, AND CONFLICTS OF INTEREST

Sec.
201. Bribery of public officials and witnesses.
202. Definitions.
203. Compensation to Members of Congress, officers, and others in matters affecting the Government.
204. Practice in Court of Claims by Members of Congress.
205. Activities of officers and employees in claims against and other matters affecting the Government.
206. Exemption of retired officers of the uniformed services.
207. Disqualification of former officers and employees in matters connected with former duties or official responsibilities; disqualification of partners.
208. Acts affecting a personal financial interest.
209. Salary of Government officials and employees payable only by United States.
210. Offer to procure appointive public office.
211. Acceptance or solicitation to obtain appointive public office.
212. Offer of loan or gratuity to bank examiner.
213. Acceptance of loan or gratuity by bank examiner.
214. Offer for procurement of Federal Reserve bank loan and discount of commercial paper.
215. Receipt of commissions or gifts for procuring loans.
216. Receipt or charge of commissions or gifts for farm loan, land bank, or small business transactions.
217. Acceptance of consideration for adjustment of farm indebtedness.
218. Voiding transactions in violation of chapter; recovery by the United States.
219. Officers and employees acting as agents of foreign principals.
223. Home Owners' Loan Corporation transactions.[1]
224. Bribery in sporting contests.

[1] Section repealed without amending analysis to reflect such repeal.

Historical Note

1966 Amendment. Pub.L. 89-486, § 8(c)(2), July 4, 1966, 80 Stat. 249, added item 219.

1964 Amendment. Pub.L. 88-316, § 1(b), June 6, 1964, 78 Stat. 204, added item 224.

1962 Amendment. Pub.L. 87-849, § 1(a), Oct. 23, 1962, 76 Stat. 1119, included conflicts of interests in the heading of the chapter, and amended section analysis generally.

1958 Amendment. Pub.L. 85-699, Title VII, § 702(d), Aug. 21, 1958, 72 Stat. 698, included small business transactions in item 221 [renumbered 216].

§ 201. Bribery of public officials and witnesses

(a) For the purpose of this section:

"public official" means Member of Congress, or Resident Commissioner, either before or after he has qualified, or an of-

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ficer or employee or person acting for or on behalf of the United States, or any department, agency or branch of Government thereof, including the District of Columbia, in any official function, under or by authority of any such department, agency, or branch of Government, or a juror; and

"person who has been selected to be a public official" means any person who has been nominated or appointed to be a public official, or has been officially informed that he will be so nominated or appointed; and

"official act" means any decision or action on any question, matter, cause, suit, proceeding or controversy, which may at any time be pending, or which may by law be brought before any public official, in his official capacity, or in his place of trust or profit.

(b) Whoever, directly or indirectly, corruptly gives, offers or promises anything of value to any public official or person who has been selected to be a public official, or offers or promises any public official or any person who has been selected to be a public official to give anything of value to any other person or entity, with intent—

(1) to influence any official act; or

(2) to influence such public official or person who has been selected to be a public official to commit or aid in committing, or collude in, or allow, any fraud, or make opportunity for the commission of any fraud, on the United States; or

(3) to induce such public official or such person who has been selected to be a public official to do or omit to do any act in violation of his lawful duty, or

(c) Whoever, being a public official or person selected to be a public official, directly or indirectly, corruptly asks, demands, exacts, solicits, seeks, accepts, receives, or agrees to receive anything of value for himself or for any other person or entity, in return for:

(1) being influenced in his performance of any official act; or

(2) being influenced to commit or aid in committing, or to collude in, or allow, any fraud, or make opportunity for the commission of any fraud, on the United States; or

(3) being induced to do or omit to do any act in violation of his official duty; or

(d) Whoever, directly or indirectly, corruptly gives, offers, or promises anything of value to any person, or offers or promises such person to give anything of value to any other person or entity, with intent to influence the testimony under oath or affirmation of such first-mentioned person as a witness upon a trial, hearing, or other proceeding, before any court, any committee of either House or both Houses of Congress, or any agency, commission, or officer

authorized by the laws of the United States to hear evidence or take testimony, or with intent to influence such person to absent himself therefrom; or

(e) Whoever, directly or indirectly, corruptly asks, demands, exacts, solicits, seeks, accepts, receives, or agrees to receive anything of value for himself or for any other person or entity in return for being influenced in his testimony under oath or affirmation as a witness upon any such trial, hearing, or other proceeding, or in return for absenting himself therefrom—

Shall be fined not more than $20,000 or three times the monetary equivalent of the thing of value, whichever is greater, or imprisoned for not more than fifteen years, or both, and may be disqualified from holding any office of honor, trust, or profit under the United States.

(f) Whoever, otherwise than as provided by law for the proper discharge of official duty, directly or indirectly gives, offers, or promises anything of value to any public official, former public official, or person selected to be a public official, for or because of any official act performed or to be performed by such public official, former public official, or person selected to be a public official; or

(g) Whoever, being a public official, former public official, or person selected to be a public official, otherwise than as provided by law for the proper discharge of official duty, directly or indirectly asks, demands, exacts, solicits, seeks, accepts, receives, or agrees to receive anything of value for himself for or because of any official act performed or to be performed by him; or

(h) Whoever, directly or indirectly, gives, offers, or promises anything of value to any person, for or because of the testimony under oath or affirmation given or to be given by such person as a witness upon a trial, hearing, or other proceeding, before any court, any committee of either House or both Houses of Congress, or any agency, commission, or officer authorized by the laws of the United States to hear evidence or take testimony, or for or because of his absence therefrom; or

(i) Whoever, directly or indirectly, asks, demands, exacts, solicits, seeks, accepts, receives, or agrees to receive anything of value for himself for or because of the testimony under oath or affirmation given or to be given by him as a witness upon any such trial, hearing, or other proceeding, or for or because of his absence therefrom—

Shall be fined not more than $10,000 or imprisoned for not more than two years, or both.

(j) Subsections (d), (e), (h), and (i) shall not be construed to prohibit the payment or receipt of witness fees provided by law, or the payment, by the party upon whose behalf a witness is called and receipt by a witness, of the reasonable cost of travel and subsistence incurred and the reasonable value of time lost in attendance at any such trial, hearing, or proceeding, or in the case of expert witnesses, involving a technical or professional opinion, a reasonable fee for time spent in the preparation of such opinion, and in appearing and testifying.

(k) The offenses and penalties prescribed in this section are separate from and in addition to those prescribed in sections 1503, 1504, and 1505 of this title.

Added Pub.L. 87-849, § 1(a), Oct. 23, 1962, 76 Stat. 1119.

Historical Note

Prior Provisions. Provisions similar to those comprising this section were contained in former sections 201-213 of this title, prior to the general amendment of this chapter by Pub.L. 87-849.

Codification. A prior section 201, Act June 25, 1948, c. 645, 62 Stat. 691, which prescribed penalties for anyone who offered or gave anything of value to an officer or other person to influence his decisions, was eliminated in the general amendment of this chapter by Pub.L. 87-849, and is substantially covered by revised section 201.

Effective Date. Section 4 of Pub.L. 87-849 provided that: "This Act [adding sections 201-209, and 218 of this title, redesignating sections 214, 215, 217-222 as 210, 211, 212-217 of this title respectively, repealing sections 223, 281-284, 434, and 1914 of this title, and section 99 of Title 5, and enacting provisions set out as notes under sections 201 and 202 of this title] shall take effect ninety days after the date of its enactment [Oct. 23, 1962]."

Canal Zone. Applicability of section to Canal Zone, see section 14 of this title.

Legislative History. For legislative history and purpose of Pub.L. 87-849, see 1962 U.S.Code Cong. and Adm.News, p. 3852.

EXECUTIVE ORDER NO. 11222

May 8, 1965, 30 F.R. 6469

STANDARDS OF ETHICAL CONDUCT FOR GOVERNMENT OFFICERS AND EMPLOYEES

By virtue of the authority vested in me by Section 301 of Title 3 of the United States Code [section 301 of Title 3, The President], and as President of the United States, it is hereby ordered as follows:

PART I—POLICY

Section 101. Where government is based on the consent of the governed, every citizen is entitled to have complete confidence in the integrity of his government. Each individual officer, employee, or adviser of government must help to earn and must honor that trust by his own integrity and conduct in all official actions.

PART II—STANDARDS OF CONDUCT

Section 201. (a) Except in accordance with regulations issued pursuant to subsection (b) of this section, no employee shall solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value, from any person, corporation, or group which—

(1) has, or is seeking to obtain, contractual or other business or financial relationships with his agency;

(2) conducts operations or activities which are regulated by his agency; or

(3) has interests which may be substantially affected by the performance or nonperformance of his official duty.

(b) Agency heads are authorized to issue regulations, coordinated and approved by the Civil Service Commission, implementing the provisions of subsection (a) of this section and to provide for such exceptions therein as may be necessary and appropriate in view of the nature of their agency's work and the duties and responsibilities of their employees. For example, it may be appropriate to provide exceptions (1) governing obvious family or personal relationships where the circumstances make it clear that it is those relationships rather than the business of the persons concerned which are the motivating factors—the clearest illustration being the parents, children or spouses of federal employees; (2) permitting acceptance of food and refreshments available in the ordinary course of a luncheon or dinner or other meeting or on inspection tours where an employee may properly be in attendance; or (3) permitting acceptance of loans from banks or other financial institutions on customary terms to finance proper and usual activities of employees, such as home mortgage loans. This section shall be effective upon issuance of such regulations.

(c) It is the intent of this section that employees avoid any action, whether or not specifically prohibited by subsection (a), which might result in, or create the appearance of—

(1) using public office for private gain;

(2) giving preferential treatment to any organization or person;

(3) impeding government efficiency or economy;

(4) losing complete independence or impartiality of action;

(5) making a government decision outside official channels; or

(6) affecting adversely the confidence of the public in the integrity of the Government.

Sec. 202. An employee shall not engage in any outside employment, including teaching, lecturing, or writing, which might result in a conflict, or an apparent conflict, between the private interests of the employee and his official government duties and responsibilities, although such teaching, lecturing, and writing by employees are generally to be encouraged so long as the laws, the provisions of this order, and Civil Service Commission and agency regulations covering conflict of interest and outside employment are observed.

Sec. 203. Employees may not (a) have direct or indirect financial interests that conflict substantially, or appear to conflict substantially, with their responsibilities and duties as Federal employees, or (b) engage in, directly or indirectly, financial transactions as a result of, or primarily relying upon, information obtained through their employment. Aside from these restrictions, employees are free to engage in lawful financial transactions to the same extent as private citizens. Agencies may, however, further restrict such transactions in the light of the special circumstances of their individual missions.

Sec. 204. An employee shall not use Federal property of any kind for other than officially approved activities. He must protect and conserve all Federal property, including equipment and supplies, entrusted or issued to him.

Sec. 205. An employee shall not directly or indirectly make use of, or permit others to make use of, for the purpose of furthering a private interest, official information not made available to the general public.

Sec. 206. An employee is expected to meet all just financial obligations, especially those—such as Federal, State, or local taxes—which are imposed by law.

PART III—STANDARDS OF ETHICAL CONDUCT FOR SPECIAL GOVERNMENT EMPLOYEES

Section 301. This part applies to all "special Government employees" as defined in Section 202 of Title 18 of the United States Code [section 202 of this title], who are employed in the Executive Branch.

Sec. 302. A consultant, adviser or other special Government employee must refrain from any use of his public office which is motivated by, or gives the appearance of being motivated by, the desire for private gain for himself or other persons, including particularly those with whom he has family, business, or financial ties.

Sec. 303. A consultant, adviser, or other special Government employee shall not use any inside information obtained as a result of his government service for private personal gain, either by direct action on his part or by counsel, recommendations or suggestions to others, including particularly those with whom he has family, business, or financial ties.

Sec. 304. An adviser, consultant, or other special Government employee shall not use his position in any way to coerce, or give the appearance of coercing, another person to provide any financial benefit to him or persons with whom he has family, business, or financial ties.

Sec. 305. An adviser, consultant, or other special Government employee shall not receive or solicit from persons having business with his agency anything of value as a gift, gratuity, loan or favor for himself or persons with whom he has family, business, or financial ties while employed by the government or in connection with his work with the government.

Sec. 306. Each agency shall, at the time of employment of a consultant, adviser, or other special Government employee require him to supply it with a statement of all other employment. The statement shall list the names of all the corporations, companies, firms, State or local governmental organizations, research organizations and educational or other institutions in which he is serving as employee, officer, member, owner, director, trustee, adviser, or consultant. In addition, it shall list such other financial

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gram as public official under this section. U.S. v. Gallegos, D.C.N.M.1981, 510 F.Supp. 1112.

Plain language of I.C.A. § 741.1, governing offense of receiving corrupt influence, and its relationship to I.C.A. §§ 739.1, 739.10, and 739.11, prohibiting other kinds of official corruption, demonstrate that legislature intended I.C.A. § 741.1 to have same scope, purpose, and effect as this section. State v. Prybil, Iowa 1973, 211 N.W.2d 308.

Even if subsec. (c)(1) of this section prohibiting acceptance by a public official of a bribe in return for being influenced in his performance of any official act and subsec. (g) of this section prohibiting the receipt by a public official of any illegal gratuity might appear overlapping and duplicitous as applied to the particular case, that would be no ground for declaring one or both to be unconstitutionally vague or overbroad, so long as each intelligibly defined an offense. Id.

This section making it a crime to corruptly give, offer or promise anything of value to any public official with intent to influence any official act is not unconstitutionally vague in its failure to define words "corruptly," "value," and "influence" in that a person of common intelligence would understand from reading statute that giving compensation to a government official in exchange for preferential treatment is not allowed. U.S. v. Pommerening, C.A.N.M.1974, 500 F.2d 92, certiorari denied 95 S.Ct. 678, 419 U.S. 1088, 42 L.Ed.2d 680, rehearing denied 95 S.Ct. 1151, 420 U.S. 939, 43 L.Ed.2d 417.

Under this section prohibiting receipt of money "for or because of any official act performed or to be performed," prosecution is not limited to receiving money for actions which are currently or may in the future be pending before a public official, as opposed to acts already completed; and, as so construed, this section is not unconstitutionally vague. U.S. v. Bishton, 1972, 463 F.2d 887, 150 U.S.App.D.C. 51.

This section proscribing public officials from accepting bribes or receiving anything of value for any official act was not unconstitutional as being vague or overbroad. U.S. v. Passman, D.C.La. 1978, 460 F.Supp. 912.

2. Construction

Language of this section does not fail to advise persons of what acts it forbids, but rather clearly and adequately expresses its purposes. U.S. v. Alessio, C.A.Cal.1976, 528 F.2d 1079, certiorari denied 96 S.Ct. 3167, 426 U.S. 948, 49 L.Ed.2d 1184, rehearing denied 97 S.Ct. 193, 429 U.S. 873, 50 L.Ed.2d 156.

Federal criminal conflict of interest statutes, this section and section 208 of this title, could not be construed to imply private right of damages against either federal employees allegedly acting improperly or against private defendants accused of acting in combination with such employees. City and County of San Francisco v. U.S., D.C. Cal.1977, 443 F.Supp. 1116, affirmed 615 F.2d 498.

3. —— With other laws

Both section 203 of this title and this section must be broadly construed in order to accomplish legislative purpose which they manifest. U.S. v. Evans, C.A.Tex.1978, 572 F.2d 455, rehearing denied 576 F.2d 931, certiorari denied 99 S.Ct. 200, 439 U.S. 870, 58 L.Ed.2d 182.

Fact that section 3374 of Title 5, pertaining to employee assigned to federal government from state or local government, states in subsec. (c)(2) of the section that such employee is deemed employee of agency for purpose of certain statutes but does not mention this section does not indicate Congressional intent not to treat state employee working under direct supervision of federal official in administration of federal branch program as public official under this section. U.S. v. Gallegos, D.C.N.M.1981, 510 F.Supp. 1112.

4. Purpose

Purpose of this section, viz., the protection of the public from the corruption of public servants and the evil consequences of that corruption, will obviously be furthered by the recognition of a civil remedy. Continental Management, Inc. v. U.S., 1975, 527 F.2d 613, 208 Ct.Cl. 501.

It is obvious that Congress, in enacting this section making it a crime to corruptly give, offer or promise anything of value to any public official with intent to influence any official act, intended to prohibit individuals from giving government employees, when they are acting in their official capacity, compensation in return for special favors. U.S. v. Pommerening, C.A.N.M.1974, 500 F.2d 92, certiorari denied 95 S.Ct. 678, 419 U.S. 1088, 42 L.Ed.2d 680, rehearing denied 95 S.Ct. 1151, 420 U.S. 939, 43 L.Ed.2d 417.

This section against corruptly giving, offering, or promising anything of value to public official with intent to influence any official act or to influence official to commit fraud or make opportunity for commission of any fraud on United States or to induce such public official to do or omit to do any act in violation of his lawful duty seeks to prevent aftermath suffered by public when an official is corrupted and thereby perfidiously fails to perform his public service and duty, and purpose of statute is to discourage one from seeking an advantage by attempting to influence public official to depart from conduct deemed essential to public interest. U.S. v. Jacobs, C.A. N.Y.1970, 431 F.2d 754, certiorari denied 91 S.Ct. 1613, 1634, 402 U.S. 950, 29 L.Ed.2d 120, rehearing denied 91 S.Ct. 2210, 403 U.S. 912, 29 L.Ed.2d 690.

5a. Common-law

Existence of extensive legislation governing bribery and fraud penalties does not rule out the Government's maintenance of a civil action based on a common-law right. Continental Management, Inc. v. U.S., 1975, 527 F.2d 613, 208 Ct.Cl. 501.

6. Recovery of bribe money

Government cannot recover bribes twice, once from the briber and again from the corrupt government employee, but it is entitled to one such recovery. Continental Management, Inc. v. U.S., 1975, 527 F.2d 613, 208 Ct.Cl. 501.

8. Disbarment of attorney

Bribing Internal Revenue Service agent to induce him to remain silent about possible criminal violations and altering and falsifying certificates of release of federal tax liens warrants disbarment. Matter of Hughes, 1982, 446 A.2d 1208, 90 N.J. 32.

Where attorney is found guilty in federal court of making unlawful payments to employees of cials" within purview of this section. U.S. v. Kirby, C.A.Ind.1978, 587 F.2d 876.

37. —— Particular functions and acts as not official

If model cities program official who was a city employee had been held to be a public official for purpose of this section, recommendation of the model cities program official that the program rent space from the person offering the bribe would have constituted an "official act." U.S. v. Del Toro, C.A.N.Y.1975, 513 F.2d 656, certiorari denied 96 S.Ct. 41, 423 U.S. 826, 46 L.Ed.2d 42.

38. Intent

This section proscribing bribery of a public official encompasses both an intent to induce acts which are part of public official's lawful duties and those acts which are erroneously perceived by briber to be part of public official's lawful duties. U.S. v. Gjieli, C.A.Mich.1983, 717 F.2d 968.

Payments to public official for acts that would have been performed in any event, whether before or after those acts have occurred, are probably illegal gratuities rather than bribes, depending upon controlling nature of defendant's intent, but all bribes need not inevitably be paid prior to official act in question, and in certain situations bribe will not actually be conveyed until act is done. U.S. v. Campbell, 1982, 684 F.2d 141, 221 U.S.App.D.C. 367.

Under bribery subsecs. (b), (c) and (d) of this section, heightened criminal intent, i.e., "corrupt" intent, was required, as opposed to simple mens rea required for violation of subsecs. (f) and (g) of this section. U.S. v. Strand, C.A.Wash.1978, 574 F.2d 993.

Section 203 of this title and this section reach improper attempts to influence future course of official conduct. U.S. v. Evans, C.A.Tex.1978, 572 F.2d 455, rehearing denied 576 F.2d 931, certiorari denied 99 S.Ct. 200, 439 U.S. 870, 58 L.Ed.2d 182.

Requisite intent necessary to sustain conviction for bribery is that official accept thing of value "corruptly"; however, under unlawful gratuity subsection all that need be proven is that official accepted, because of his position, a thing of value otherwise than as provided by law for proper discharge of official duty, and thus, latter subsec. (g) of this section makes it criminal for public official to accept thing of value to which he is not lawfully entitled regardless of intent of donor or donee. Id.

Requirement of criminal intent to bribe a governmental political official by gift, favor or contribution would be satisfied if jury were to find a course of conduct of favors and gifts flowing to a public official in exchange for a pattern of official actions favorable to donor even though no particular gift or favor is directly connected to any particular official act. U.S. v. Arthur, C.A.W.Va. 1976, 544 F.2d 730.

Crucial distinction between "goodwill" expenditures and bribery is the existence or nonexistence of criminal intent that the benefit be received by the public official as a quid pro quo for some official act, pattern of acts, or agreement to act favorably to the donor when necessary. Id.

Goodwill gifts and favors to and entertainment of government officials, though intended to influence judgment of such officials and only with hope that officials will be more likely to award government business to donor if a favorable business climate is created than if such a climate is not established, does not amount to bribery. Id.

Proof of the offense of bribery involves proof, among other things, of corrupt intent to influence or be influenced in official conduct. U.S. v. Anderson, 1974, 509 F.2d 312, 165 U.S.App.D.C. 390, certiorari denied 95 S.Ct. 1427, 420 U.S. 991, 43 L.Ed.2d 672.

A gift or promise of something of value with intent to exert influence on a legislator in the performance of an official act constitutes "bribery," even if the recipient is not actually influenced; the influencing is legally innocent only if unaccompanied by the intent. Id.

The payment and the receipt of a bribe are not interdependent offenses; the donor's intent may differ from the donee's. Id.

The requisite intent to constitute acceptance of bribe by a public official in return for being influenced in his performance of any official act is to accept a thing of value "corruptly" while the comparable intent necessary to constitute accepting an illegal gratuity is to accept a thing of value otherwise than as provided by law for the proper discharge of official duty. U.S. v. Brewster, 1974, 506 F.2d 62, 165 U.S.App.D.C. 1.

The different and higher requisite degree of criminal intent is the additional element which is essential to make the offense of acceptance by a public official of a bribe in return for being influenced in his performance of any official act the greater offense in relation to the lesser included offense of accepting an illegal gratuity. Id.

This section against corruptly giving, offering or promising anything of value to public official with intent to influence any official act or to influence official to commit any fraud or make opportunity for commission of any fraud on United States or to induce official to do or omit to do any act in violation of his lawful duty is violated even though official offered a bribe is not corrupted or object of bribe cannot be attained, and it makes no difference if after act is done it turns out that there was actually no occasion to seek to influence any official conduct. U.S. v. Jacobs, C.A.N.Y. 1970, 431 F.2d 754, certiorari denied 91 S.Ct. 1613, 1634, 402 U.S. 950, 29 L.Ed.2d 120, rehearing denied 91 S.Ct. 2210, 403 U.S. 912, 29 L.Ed.2d 690.

Although criminal intent is a necessary element for conviction for payment of gratuities to internal revenue agents in return for favorable adjustments in connection with audits of personal income tax returns, no specific intent is required, and offense was established if the payments were made because of economic duress, a desire to create a better working atmosphere, or appreciation for a speedy and favorable audit. U.S. v. Barash, C.A. N.Y.1969, 412 F.2d 26, certiorari denied 90 S.Ct. 86, 396 U.S. 832, 24 L.Ed.2d 82.

This section making unlawful the solicitation by a public official of a bribe in return for either violating his official duty or being influenced in performance of any official act is applicable to a situation where advice and recommendation of government employee involved would be influential, even though employee did not have authority

The scope and purpose of subsections (f) and (g) have been stated in detail by the Second Circuit in *United States* v. *Irwin*[56] as follows:

> It is apparent from the language of the subsection that what Congress had in mind was to prohibit an individual, dealing with a Government employee in the course of his official duties, from giving the employee additional compensation or a tip or gratuity for or because of any official act already done or about to be done.
>
> The awarding of gifts thus related to an employee's official acts is an evil in itself even though the donor does not corruptly intend to influence the employee's official acts, because it tends, subtly or otherwise, to bring about preferential treatment by Government officials or employees, consciously or unconsciously, for those who give gifts as distinguished from those who do not. The preference may concern nothing more than fixing the time for a hearing or giving unusually prompt consideration to the application of a donor while earlier applications of non-donors are made to wait, even though there is no evidence that the donor sought the particular preference. Moreover, the behavior prohibited by § 201(f) embraces those cases in which all of the essential elements of the bribery offense (corrupt giving) stated in § 201(b) are present except for the element of specific intent to influence an official act or induce a public official to do or omit to do an act in violation of his lawful duty. The iniquity of the procuring of public officials, be it intentional or unintentional, is so fatally destructive to good government that a statute designed to remove the temptation for a public official to give preferment to one member of the public over another, by prohibiting all gifts "for or because of any official act," is a reasonable and proper means of insuring the integrity, fairness and impartiality of the administration of law.

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[55] See *United States* v. *Barash*, 412 F.2d 26, 29 (2d Cir.) cert. denied, 396 U.S. 832 (1969).

[56] 354 F.2d 192, 196 (2d Cir. 1965), cert. denied, 383 U.S. 967 (1966).

Mr. **Dingell**. How does one say that you had billed a silver bowl as 10 retirement watches and billed them correctly and properly?

Mr. **MacDonald**. Mr. Chairman, I have no idea why they did that procurement the way they did.

Mr. **Dingell**. I find it curious. Is this the regular practice? When you give silver bowls do you bill them as 10 retirement watches?

Mr. **MacDonald**. Absolutely not.

Mr. **Dingell**. And if you get 10 retirement watches, what do you bill them as?

Mr. **MacDonald**. I said absolutely not. I don't know why he did what he did.

Mr. **Dingell**. Did you give Admiral Rickover 10 retirement watches?

Mr. **MacDonald**. No.

Mr. **Dingell**. Well, the statute here says:

> Whoever otherwise is provided by law for the proper discharge of official duties directly or indirectly gives, offers or promises anything of value to any public official or former public official or persons selected to be public officials for or because of any official act performed or to be performed by such public official, former public official or person selected to be a public official, or * * *" and then it goes on to describe "* * * gives, directly gives or promises anything of value * * *" and so forth.

Do you have a policy on the giving of gifts?

Mr. **MacDonald**. Yes.

Mr. **Dingell**. What is that policy?

Mr. **MacDonald**. What is it?

Mr. **Dingell**. What is it?

Mr. **MacDonald**. I couldn't recite the exact words. We just have a policy against giving gifts.

Mr. **Dingell**. You have a policy against giving gifts? Is that why you communicated with Mr. Lewis about this gift?

Mr. **MacDonald**. No; I explained to you what had happened.

Mr. **Dingell**. Is that why these were billed as 10 retirement watches?

Mr. **MacDonald**. Being billed the way it was has nothing to do with the purchase of it.

Mr. **Wyden**. Would the Chairman yield?

Mr. **Dingell**. Yes, I'd be delighted to yield.

Mr. **Wyden**. Just very briefly, my understanding is that Mr. Pedace went to the chauffeur and asked him to put in a false voucher for $500 and that's the way you pulled this one off. Isn't that right?

Mr. **MacDonald**. I don't like your words, "pulling it off."

Mr. **Wyden**. Well, that's what we keep coming back to again and again, is these convoluted processes for filing falsified claims.

Mr. **MacDonald**. Everyone of your data is coming from a perjurer, that is a felon right now.

Mr. **Wyden**. We have been told on good authority that that's the way it was done. Mr. Pedace has admitted it. Now, are you saying that's not right?

Mr. **MacDonald**. Did Mr. Pedace say I directed him to do that?

Mr. **Wyden**. Yes.

Mr. **MacDonald**. He did not.

Mr. WYDEN. The chauffeur said that that's the way it was done. That was the way the falsified claim was handled.

Mr. MACDONALD. I directed him to do it? I asked him? No; I did not even suggest it.

Mr. WYDEN. That is the way Pedace did it; not you.

Mr. MACDONALD. I know that. I agree.

Mr. DINGELL. Well, why would Mr. Pedace do it this way?

Mr. MACDONALD. I don't have any idea, Mr. Chairman. I've talked to Mr. Pedace once since that time on another subject on the telephone, and I stayed away from it because I didn't want to get into any kind of a possibility of somebody thinking that we were discussing this matter.

Mr. DINGELL. Were you aware of the gratuities clause in your contract on these vessels?

Mr. MACDONALD. I did not at the time feel that this was a gift in the sense of a gift. It was similar to a sponsor's gift.

Mr. DINGELL. If you give something to your sponsors, is that a gift?

Mr. MACDONALD. Yes.

Mr. DINGELL. If you give something to somebody else, is that a gift?

Mr. MACDONALD. Yes.

Mr. DINGELL. What is the difference?

Mr. MACDONALD. If Mrs. Rickover could have been a sponsor, I would have given her the gift.

Mr. DINGELL. Was Mrs. Rickover a sponsor?

Mr. MACDONALD. No; she was not.

Mr. DINGELL. Well, I am curious why, if this gift was entirely proper, and you have a gratuities clause in your contract and the Federal statute, title 18, section 201, why was this billed in this curious fashion?

Mr. MACDONALD. Why?

Mr. DINGELL. Why was this billed through the accounts of General Dynamics in this curious fashion? You admitted that Mr. Rickover did not receive 10 watches; he received a silver bowl, or jewelry.

Mr. MACDONALD. I don't know why Bill Pedace did it the way he did.

Mr. DINGELL. Let me try and figure it out. What did Mr. Rickover or Mrs. Rickover get from General Dynamics? Was it a silver bowl, jewelry or 10 watches?

Mr. MACDONALD. No; two pieces of jewelry that totaled $1,125.

Mr. DINGELL. Two pieces of jewelry? So it wasn't a silver bowl, it wasn't 10 watches; it was 2 pieces of jewelry. What were these 2 pieces of jewelry?

Mr. MACDONALD. One was a pin, and one was I believe earrings. I'm not sure.

Mr. DINGELL. Did you tell Mr. Pedace not to tell anyone about the gifts?

Mr. MACDONALD. I told Mr. Pedace not to discuss it with anyone.

Mr. DINGELL. And you told him that because it would be embarrassing to you and the corporation? Is that right?

Mr. MACDONALD. No; I'm not sure whether I said that. I believe I said because it may be embarrassing if it got into the media.

Mr. Dingell. You said it would be embarrassing. Who would it be embarrassing to?

Mr. MacDonald. The Admiral——

Mr. Dingell. How about the corporation?

Mr. McDonald. I didn't think of it at the time, I don't believe. don't believe.

Mr. Dingell. So with the full knowledge that this might be embarrassing to the corporation and Mr. Pedace and maybe you, Mr. Pedace went out and billed these 2 pieces of jewelry as 10 watches; is that right?

Mr. MacDonald. That's what I've been told.

Mr. Dingell. Thank you.

But how was it that you then certified to Arthur Andersen that there had been no gifts of questionable propriety?

Mr. MacDonald. At the time I didn't even think about that because I viewed that not as a gift; I didn't believe there was anything wrong.

Mr. Dingell. Did you read this document that you signed?

Mr. MacDonald. Yes; I signed it when I reported it.

Mr. Dingell. It says, "G.E. MacDonald, General Manager." Did you read this when you signed it?

Mr. MacDonald. I sign them every quarter, four times a year, and——

Mr. Dingell. Do you read them when you sign them?

Mr. McDonald. I don't read it every quarter now unless there's been a change in the document.

I know what the document says.

Mr. Dingell. How does Arthur Andersen use this document?

Mr. MacDonald. They accept that as a fact; that it is correct.

Mr. Dingell. They use this, though, for review of the financial statements of Electric Boat, do they not?

Mr. MacDonald. Yes; they don't certify Electric Boat; they certify the corporation. EB is one piece of it.

Mr. Dingell. All right. This document here then is used in connection with General Dynamics' audits that are filed by General Dynamics pursuant to the requirements of the Securities' laws, isn't that right?

Mr. MacDonald. That's correct.

Mr. Dingell. They also go with reports and so forth that are filed by General Dynamics and by Arthur Andersen on behalf of General Dynamics to the Navy Department, do they not?

Mr. MacDonald. Yes; don't forget, Mr. Chairman, I did say that the costs were not charged to the Government, either. The cost of those two pieces of jewelry were not charged to the Government. I just want to make sure you heard that.

Mr. Dingell. I'm not even inquiring about that. What I'm saying here is the auditors are receiving untrue information over your signature.

Mr. MacDonald. I said that at the time it didn't even come to my mind that that was a gift.

Mr. Dingell. Obviously that it didn't because it was embarrassing, or could have been embarrassing, if it had been billed as 10 watches.

The Chair thanks the gentlemen. The gentleman from Alabama, Mr. Shelby.

Mr. **Shelby**. Thank you, Mr. Chairman. First of all, I'd like to get back to a theme that we are all talking about at times here, and that's public trust. And I will touch on, to begin with, what the Chairman was asking Mr. MacDonald, and that is about the Admiral Rickover incident.

Why would you spend $1,000, and those are your figures, on a gift to Admiral Rickover and then cover it up when you knew it violated the law when you did it, and you knew that it would be embarrassing not only to Admiral Rickover but to yourself and then covered it up internally from your accounting firm?

Mr. **MacDonald**. I can't answer that question. I have got to go back. You asked me 10 loaded questions, and I can't answer them. One at a time.

Mr. **Shelby**. Let's take them one at a time, then. First of all, why did you give Admiral Rickover gifts to begin with, knowing that was a violation of the law to do so? That is question one.

Mr. **MacDonald**. OK. A violation of the law did not come into my mind.

Mr. **Shelby**. So you did it. OK.

Second question. After you did it, why did you cover it up if you hadn't known it was wrong to begin with?

Mr. **MacDonald**. There are two pieces to that question. First, I did not direct that it be covered up.

Mr. **Shelby**. Who did?

Mr. **MacDonald**. Mr. Pedace is the one who bought the jewelry, at my request, but without any instructions on how to do it. I didn't know how to do it.

Mr. **Shelby**. Did you tell him who you were buying the jewelry for?

Mr. **MacDonald**. Yes.

Mr. **Shelby**. So you knew what you were doing in getting one of your employees to carry it out was wrong and violated the law when you did it.

Mr. **MacDonald**. I did not.

Mr. **Shelby**. Well, how long have you been with General Dynamics?

Mr. **MacDonald**. Fourteen years.

Mr. **Shelby**. And is this a practice, that you buy gifts, expensive gifts and give them to admirals, generals or other people that are in the procurement process and are in a position to make big decisions affecting your company?

Mr. **MacDonald**. Mr. Lewis' opening statement said that we regret that this incident did happen. It is not the practice to do that. As a matter of fact, it's a violation of the company practice to do that.

Mr. **Shelby**. Who is the gentleman that you got to do this, to buy these gifts? What was his name?

Mr. **MacDonald**. Bill Pedace.

Mr. **Shelby**. Has he been promoted within General Dynamics since you got him to do this?

Mr. **MacDonald**. About——

Mr. **Shelby**. Yes or no? Has he?

Mr. MacDonald. He was fired.

Mr. Shelby. When was he fired?

Mr. MacDonald. Well, he couldn't take Veliotis any more. He quit. That was it.

Mr. Shelby. And when did this happen?

Mr. MacDonald. Oh, this must have been in 1978.

Mr. Shelby. He was pretty good at buying gifts, though, wasn't he? He did what you told him. He carried out what you told him to do, to buy some gifts for Admiral Rickover, right?

Mr. MacDonald. But he didn't do it the right way.

Mr. Shelby. Sure, well he couldn't have done it the right way, could he? What was the right way?

Mr. MacDonald. The right way would have been to have gone to the jeweler, get a receipt, charge it into the same account where the sponsors' gifts go to.

Mr. Shelby. And list it as a gift to Admiral Rickover?

Mr. MacDonald. You don't list in any record where those gifts go. It says in there that it's a sponsor.

Mr. Shelby. Mr. MacDonald, we found that out this morning, that your company doesn't list a lot of things, except when you are submitting vouchers to the taxpayers to reimburse you for so-called corporate overhead.

Mr. MacDonald. We do it where the Government requires it.

Mr. Shelby. Is the gentleman who bought the gifts, is he in any way employed as an employee or consultant, adviser with General Dynamics?

Mr. MacDonald. He is back with the company.

Mr. Shelby. Oh, he is doing well, then?

Mr. MacDonald. Yes, he is, very well.

Mr. Shelby. Is he still buying gifts?

Mr. MacDonald. No, he is not, he's not in that area now.

Mr. Shelby. What are his duties now?

Mr. MacDonald. Public affairs. Trying to make sure the press understands the truth.

Mr. Shelby. I think the press is finding the truth here today, and the American people, we hope, coming out of this committee is going to find some more of the truth. How can you continue to explain or try to explain, you or Mr. Lewis? We have got document after document here—and I will just run over some of them briefly.

One. Mr. Lewis, can you explain the propriety of a General Dynamics billing the Government for a room for you at the Waldorf Astoria Hotel in New York at the rate of $352 per night in October 1983? We have a copy of the voucher that we will submit to you if you don't have it.

Do you think it was reasonable to expect the Government, that is, the American taxpayer, to pay for this hotel bill? And that was, for your information, on October 25, 1983. Pretty expensive hotel bill. That is just one. Do you care to comment on that? You don't deny it, do you?

Mr. Lewis. I don't remember the occasion. It depends on what the occasion was.

Mr. Shelby. Okay. Another one.

I have a bill and I also have a letter that was written to General Dynamics from a Retired General Maurer—is that his name, how do you pronounce his name, M-a-u-r-e-r, and he works for you—requesting travel approval to visit old friends in the National Guard. This trip was approved. We have copies of this and we will be glad to furnish them to you if you haven't. General Dynamics then billed the American taxpayers in an allowable travel account for over $1,000.

The fact is Gen. Maurer also took his wife along, rented a Cadillac Seville and at the same time billed this cost to the Government. Do you think, Mr. Lewis, as Chairman and Chief Executive Officer of General Dynamics, again do you think the taxpayers should pay for this sort of frivolous travel by General Dynamics employees?

What I have is a copy of a letter dated July 13, 1984 from W.W. Maurer. This was a request for travel authorization written on your company's stationery.

Mr. LEWIS. I don't think that is appropriate to be charged to the taxpayers of America unless he was on business with the National Guard, and I don't know that it was billed to the taxpayers of the United States, do you?

Mr. SHELBY. It is our understanding, yes; sir. I hope it is going to be disallowed.

Mr. LEWIS. If it was a travel request approval, I presume he went, I don't know.

Mr. SHELBY. He went, and what he was doing was visiting his old buddies there. And also, according to his letter here, he said, among other things, he thought it would be an opportunity to meet new friends in the Guard and establish a lot of goodwill for the M-1 tank program. I guess he did that in the Cadillac Seville.

Mr. LEWIS. That seems excessive.

Mr. SHELBY. It does. Another one, Mr. Lewis, and this is a series of these.

[The following documents were submitted:]

The Waldorf-Astoria
A Hilton Hotel
301 Park Avenue New York 10022 (212)355-3000
and
The Waldorf Towers
100 East 50th Street New York 10022 (212)355-3100

LEWIS, DAVIS AR 10/25-10/26/83 297637
PAGE 01 A
GENERAL DYNAMICS CORP. 325.00 33J
7733 FORSYTH BLVD. MEG113
ST.LOUIS,MISSOURI 63105
NYCWIHHITPOC1094A IH

277

10/25/83	VALET	WB	98653	9.73		
10/25/83	203-325-7950	FZ	17:17	2.09		
10/25/83	203-852-2000	FZ	1[illegible]:55	4.21		
10/25/83	213-879-5195	FZ	17:49	3.95		
10/25/83	OCCUP TAX33J	XAP		2.00		
10/25/83	ROOMATAX 33J	XAP		351.01		
10/25/83	OCCUP TAX33J	XAP		2.00		
10/26/83	W H C 26329	YP			374.11	
10/26/83	ROOM SERVICE	RSH	19421	38.32		
10/26/83	DEP.BILL-C/L	FP			38.32	

1

277.

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1072 [illegible]

TOTAL DUE 414.43

PLEASE PAY ON RECEIPT

RECEIVED

[illegible] 7 1983

CURRENT	[illegible]	[illegible]	OVER 90 DAYS	[illegible]
414.43	.00	.00	.00	.00

The Waldorf-Astoria

[illegible]

457259 315075

GENERAL DYNAMICS
PIERRE LACLEDE CENTER
ST. LOUIS, MISSOURI 63105

11-15-83

[illegible] NUMBER	INVOICE DATE	INVOICE NUMBER	GROSS AMOUNT	DISCOUNT AMOUNT	NET AMOUNT
	11-08-83		414.43	.00	414.43
278			414.43	.00	414.43

278

GENERAL DYNAMICS CORPORATION
Washington Operations
1745 Jefferson Davis Highway, Arlington, Virginia 22202

703-553-1200

RECEIVED
7/27/84
C. W. HANSEN

Approved
CWH
7/27/84

Date: 13 July 1984

To: C. W. Hansen

cc: W. H. L. Mullins

From: W. W. Maurer

Subject: Request for Travel Authorization

My wife and I have been extended an invitation by Major General Collin C. Campbell to attend the activation ceremonies for the newly formed National Guard 32nd Infantry Division (Mechanized) at Fort Leavenworth, Kansas on 24 - 25 August.

This new Division is being formed from existing National Guard Brigades located in Colorado, Kansas, Iowa, Missouri and Tennessee. The Division Headquarters will be located at Fort Leavenworth. General Campbell has been selected from the Missouri National Guard in competition with the National Guard Generals from all the States involved to command the new Division. He is a long time old friend of mine. The 32nd Infantry Division will be maintained at a high degree of operational readiness with an early deployment mission for the European Theatre. The Division is programmed to receive a battalion of M1 tanks in late FY'86.

The activities begin on the evening of 24 August with a black tie banquet at the Fort Leavenworth Officers Club. A wide variety of guests have been invited, which includes the Secretary of the Army, Chief of Staff, Chief, National Guard Bureau, Commander, TRADOC, and members of Congress from the States represented in the new Division. The activation ceremony will be held on Saturday morning, 25 August along with a formal parade of active Army and National Guard units. We have been invited to be a part of the official reviewing party.

I believe this is an excellent opportunity to meet new friends in the National Guard, and to establish a lot of good will for the M1 tank program. Also there are Congressional aspects with some members particularly those from Kansas and Missouri expected to attend. Accordingly, I request travel authorization to attend the activation ceremony, and for my wife to travel at company expense fo protocol purposes.

W. W. Maurer
W. W. Maurer

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W. W. Maurer	EMPLOYEE NO. 4094	DEPARTMENT 710	PERIOD FROM 8/22/84	TO 9/5/84	

DATE	DESTINATION FROM TO	CASH ADVANCE LOCATION	CASH ADVANCE AMOUNT	TRANSPORTATION CODE	TRANSPORTATION PROVIDED AMOUNT	TRANSPORTATION PURCHASED AMOUNT	HOTEL ROOM	MEALS (SELF) B	MEALS (SELF) L	MEALS (SELF) D	OTHER (EXPLAIN ON REVERSE)	TOTAL * CASH EXPENSE
8/22	Washington, D.C.					3.20					8.00✓ 64.52X	75.72
8/23	Wash. DC - Kansas Cty			BP BP	260. 268.	3.20	99.96				12.00✓ 3.00	118.16
8/23	Kansas City										3.00 128.40A	131.40
8/24	"						99.96	9.65		21.48	.50 72.73✓	204.32
24	"										24.00	24.00
8/25	"						99.96	14.58		22.75	45.15✓ 24.00	206.44
8/26	"						99.96	14.94		21.13	24.00	160.02
8/27	Kan. City-Wash.DC			A	153.52	3.20		9.65	18.75		2.00	33.60
8/29	Washington, D.C.					.60						.60
8/30 8/31	" "			BP/Cab	5.80	.60						.60
8/31 9/4						7.00					6.40 96.00X	13.40 96.00
9/4 5	" "					.80 2.00					15.50 1.50	16.30 16.45
											12.95	
	TOTALS				▨	20.60	399.84	48.82	18.75	65.35	543.65	1.097.01

INSTRUCTIONS

1. Trip purpose(s) are to be recorded on the reverse side of this form.
2. Advances are to be settled every two weeks or at the end of each trip, whichever occurs first.
3. Attach receipts for all expenses, paid by company or employee.
4. Attach all unused transportation tickets.
5. Car mileage, car rentals, taxis, parking, tolls, hospitality, telephone, telegraph and gratuities should be listed in the OTHER column with an explanation on the reverse side.
6. Transportation codes - ATP airline credit card, BP company bought ticket, H Hertz, A Avis Company rental cars.
7. Cash payment codes - CA [illegible], CR [illegible].
8. Cash advance location - Fill in with appropriate Division/Subsidiary location.

* Do not include cost of company provided transportation.

EXPENSE SUMMARY

CASH ADVANCES ____

TOTAL CASH EXPENSE 1,097.01

REIMBURSEMENT DUE EMPLOYEE 1,097.01

REFUND DUE COMPANY ____

EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF THE REFUND MUST BE SUBMITTED WITH THIS REPORT

APPROVALS

EMPLOYEE'S SIGNATURE William W. Maurer DATE 9/5/84

APPROVED BY 9/6/84

6-12/13

GDC 801 Rev. 4/71

GENERAL DYNAMICS CORPORATE INFORMATION

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GENERAL DYNAMICS PRIVATE INFORMATION

8/22	Mileage DC to Rosslyn & return 16 mi @ .20 = 3.20; Refreshments BC (3) M1 8.00; BC dinner (3) M1 Tank 64.52	
8/23	Fort Meyer Officers Club Dues 12.00; mileage Residence to Nat't Airport 16 mi = 3.20; Baggage Tips KCI Airport 3.00; BC (4) M1 Tank 128.40	
8/24	Toll Bridge .50; BC (4) M1 Tank 72.73; BC refreshments (No Host Cocktail Party) (7) M1 Tank 24.00; NOT CLAIMED	
8/25	BC lunch (4) M1 Tank 45.15; BC Refreshments (6) 24.00	
8/26	DC refreshments (3) M1 Tank 24.00	
8/27 8/29 30 8/31	Mileage National Airport to Residence 16 mi. @ .20 = 3.20; Baggage Tips 2.00 Mileage to Pentagon & return 3 mi @ .20 = .60 Mileage to Pentagon & return 3 mi @ .20 = .60 Taxi from Capitol Hill to Office 7.00; DC (2) M1 Tank 6.40	
9/4 9/4 9/5	Mileage Pentagon, Twin Bridge Marriott & return 4 mi @ .20 = .80; DC (2) M1 Tank 15.50 Dues Army Navy Country Club 96.00 Mileage Capitol Hill & return 10 mi = 2.00; parking 1.50; BC (8) M1 Tank 12.95	

BUSINESS TRIP PURPOSE(S)

8/23 -	8/27 Washington, D.C. to Kansas City, Mo & return (Mr. & Mrs. Maurer) Coordination Visit with
	Army Training & Doctrine Command on future Army Tracked Vehicle Requirements 7 activation of 35 Infantry Div. (Mech) Army National Guard.

GENERAL DYNAMICS PRIVATE INFORMATION

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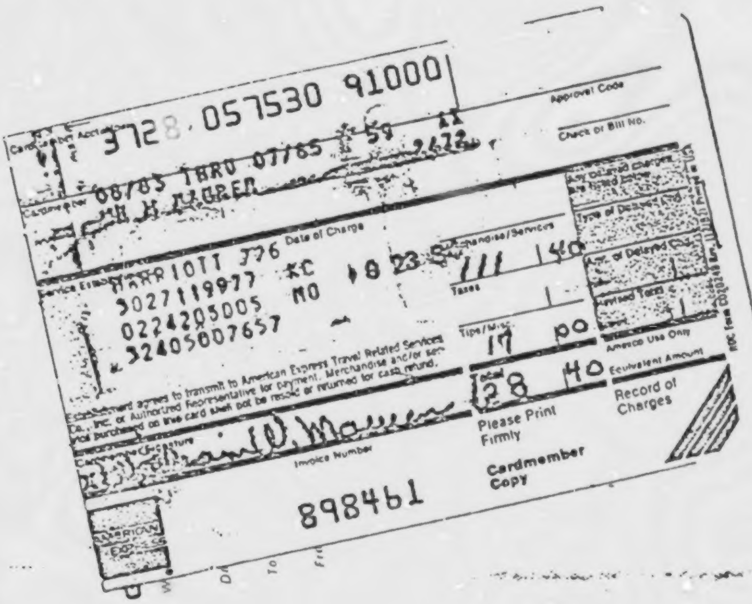
GENERAL DYNAMICS PRIVATE INFORMATION



Approval Code

Check or Bill No.

Cardmember Account No. 3728 057530 91000

08/83 THRU 07/85 59

9472

Cardmember MR H MAURER

Date of Charge 8 23

Service Establishment MARRIOTT 376 KC

3027119977 MO

0224205005

32405007657

Merchandise/Services 111 40

Taxes

Tips/Misc. 17 00

Total 128 40

Any Delayed charges are listed below

Type of Delayed Chg.

Amt. of Delayed Chg.

Revised Total $

Amexco Use Only

Equivalent Amount

Establishment agrees to transmit to American Express Travel Related Services Co., Inc. or Authorized Representative for payment. Merchandise and/or services purchased on this card shall not be resold or returned for cash refund.

Cardmember Signature W. Maurer

Please Print Firmly

Record of Charges

Cardmember Copy

Invoice Number 898461

AMERICAN EXPRESS

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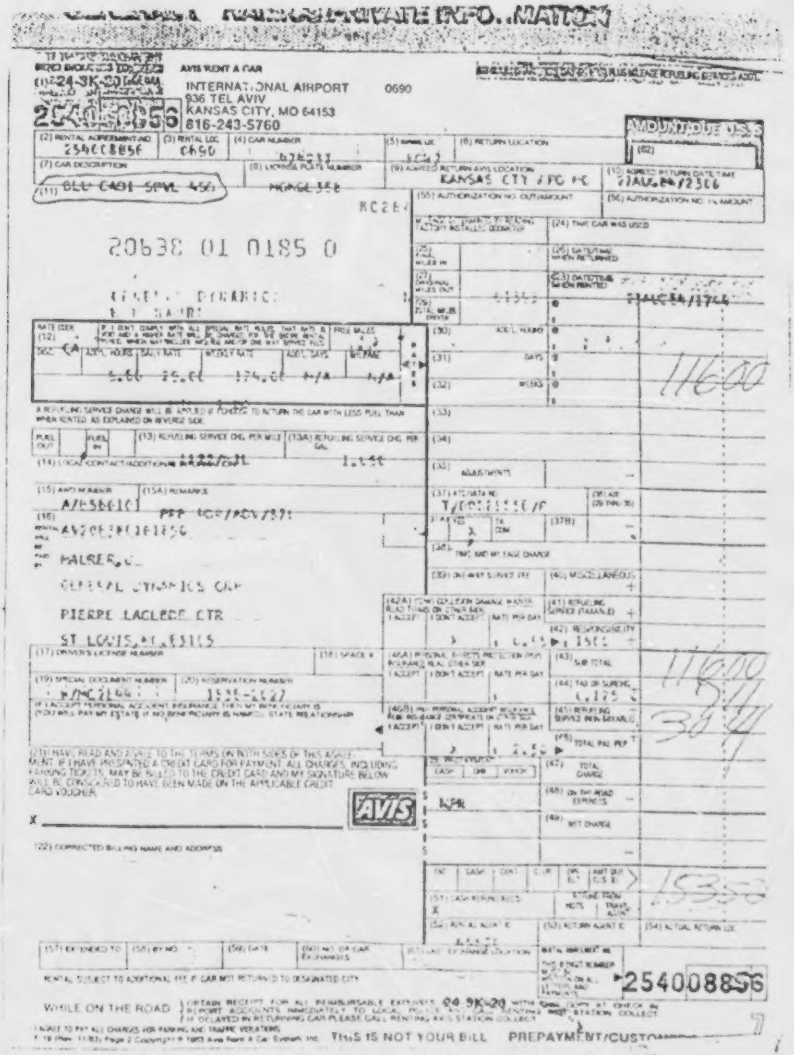
GENERAL DYNAMICS PRIVATE INFORMATION



(1) 24-3K-20

2540088 56

AVIS RENT A CAR

INTERNATIONAL AIRPORT 0690
936 TEL AVIV
KANSAS CITY, MO 64153
816-243-5760

AMOUNT DUE U.S. $

(62)

(2) RENTAL AGREEMENT NO. 254008856	(3) RENTAL LOC. 0690	(4) CAR NUMBER	(5)	(6) RETURN LOCATION
(7) CAR DESCRIPTION (11) BLU CADI SPVL 456		(8) LICENSE PLATE NUMBER	(9) AGREED RETURN AVIS LOCATION KANSAS CTY / FC MC	(10) AGREED RETURN DATE/TIME AUG84/2306

(55) AUTHORIZATION NO. OUT/AMOUNT

(56) AUTHORIZATION NO. IN AMOUNT

20638 01 0185 0

GENERAL DYNAMICS

(24) TIME CAR WAS USED

(25) FINAL MILES IN

(26) DATE/TIME WHEN RETURNED

(27) ORIGINAL MILES OUT

(23) DATE/TIME WHEN RENTED

(29) TOTAL MILES DRIVEN

RATE CODE (12)

FREE MILES

DISC.	ADD'L HOURS	DAILY RATE	WEEKLY RATE	ADD'L DAYS	MILEAGE
CA	5.00	25.00	174.00	N/A	N/A

(30) ADD'L HOURS

(31) DAYS

(32) WEEKS

116.00

(33)

(34)

(35) ADJUSTMENTS —

A REFUELING SERVICE CHARGE WILL BE APPLIED IF YOU ELECT TO RETURN THE CAR WITH LESS FUEL THAN WHEN RENTED AS EXPLAINED ON REVERSE SIDE.

FUEL OUT | FUEL IN | (13) REFUELING SERVICE CHG. PER MILE | (13A) REFUELING SERVICE CHG. PER GAL.

(14) LOCAL CONTACT/ADDITIONAL

(15) AWD NUMBER

(15A) REMARKS

(16)

HALBER, C

GENERAL DYNAMICS CRP

PIERRE LACLEDE CTR

ST LOUIS, MO, 63105

(37) ATC/IATA NO.

(37A) YES X

(37B) —

(38) TIME AND MILEAGE CHARGE

(39) ONE-WAY SERVICE FEE

(40) MISCELLANEOUS +

(41) REFUELING SERVICE (TAXABLE) +

(42A) COLLISION DAMAGE WAIVER READ TERMS ON OTHER SIDE — I ACCEPT | I DON'T ACCEPT | RATE PER DAY

(42) RESPONSIBILITY +

(17) DRIVER'S LICENSE NUMBER

(18) SPACE #

(42A) PERSONAL EFFECTS PROTECTION (PEP) INSURANCE READ OTHER SIDE — I ACCEPT | I DON'T ACCEPT | RATE PER DAY

(43) SUB TOTAL

116.00

(19) SPECIAL DOCUMENT NUMBER

(20) RESERVATION NUMBER

(44) TAX OR SURCHG.

IF I ACCEPT PERSONAL ACCIDENT INSURANCE THEN MY BENEFICIARY IS (YOU WILL PAY MY ESTATE IF NO BENEFICIARY IS NAMED) STATE RELATIONSHIP

(46B) PAI PERSONAL ACCIDENT INSURANCE READ INSURANCE CERTIFICATE ON OTHER SIDE — I ACCEPT | I DON'T ACCEPT | RATE PER DAY

(45) REFUELING SERVICE (NON-TAXABLE)

5.74

38.74

(46) TOTAL PAI PEP

(21) I HAVE READ AND AGREE TO THE TERMS ON BOTH SIDES OF THIS AGREEMENT. IF I HAVE PRESENTED A CREDIT CARD FOR PAYMENT, ALL CHARGES, INCLUDING PARKING TICKETS, MAY BE BILLED TO THE CREDIT CARD AND MY SIGNATURE BELOW WILL BE CONSIDERED TO HAVE BEEN MADE ON THE APPLICABLE CREDIT CARD VOUCHER.

X ____________________

AVIS

CASH | CHK | VOUCH

(47) TOTAL CHARGE

(48) ON THE ROAD EXPENSES —

(49) NET CHARGE

(22) CORRECTED BILLING NAME AND ADDRESS

CASH | CENT | C.I.P. | AMT DUE U.S. $

153.50

(51) CASH REFUND REC'D X

(52) RENTAL AGENT ID

(53) RETURN AGENT ID

(54) ACTUAL RETURN LOC.

(57) EXTENDED TO | (58) BY NO. | (59) DATE | (60) NO. OF CAR EXCHANGES | (61) LAST EXCHANGE LOCATION

RENTAL SUBJECT TO ADDITIONAL FEE IF CAR NOT RETURNED TO DESIGNATED CITY

THIS 9 DIGIT NUMBER MUST BE WRITTEN ON ALL LETTERS AND PAYMENTS

254008856

WHILE ON THE ROAD — OBTAIN RECEIPT FOR ALL REIMBURSABLE EXPENSES 24-3K-20 WITH COPY AT CHECK IN. REPORT ACCIDENTS IMMEDIATELY TO LOCAL POLICE AND CALL RENTING STATION COLLECT. IF DELAYED IN RETURNING CAR PLEASE CALL RENTING AVIS STATION COLLECT.

I AGREE TO PAY ALL CHARGES FOR PARKING AND TRAFFIC VIOLATIONS

F 19 (Rev. 11/83) Page 2 Copyright © 1983 Avis Rent A Car System, Inc. THIS IS NOT YOUR BILL PREPAYMENT/CUSTOMER

GENERAL DYNAMICS PRIVATE INFORMATION

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GENERAL DYNAMICS PRIVATE INFORMATION

VICE PRESIDENT
[illegible]
VICE PRESIDENT
[illegible] Broomfield, Michigan
PRESIDENT
[illegible]
VICE PRESIDENT
[illegible]
VICE PRESIDENT
[illegible] Stenholm, Texas
RECORDING SECRETARY
[illegible] Dickinson, Alabama
CORRESPONDING SECRETARY
[illegible] North Dakota

TREASURER
[illegible] T. Myers, Indiana
PROGRAM CHAIRMEN
Mrs. Robert T. Stafford, Vermont
Mrs. Robert T. Matsui, California
COMMITTEE
Mrs. Robert E. Badham, California
Mrs. John Breaux, Louisiana
Mrs. Richard Cheney, Wyoming
Mrs. Kent R. Hance, Texas
Mrs. Richard Ichord, Missouri
Mrs. James A. S. Leach, Iowa
Mrs. J. Marvin Leath, Texas
Mrs. Bill Nelson, Florida
Mrs. Richard T. Schulze, Pennsylvania
Mrs. J. William Stanton, Ohio

The Congressional Club
2001 NEW HAMPSHIRE AVENUE, N.W.   WASHINGTON, D.C. 20009   PHONE 332-1155

CIA-AED

March 1, 1982

Attention: General Mullins
General Dynamics
1745 Jefferson Davis Highway
  Suite 1000
Arlington, Virginia 22202

Dear Moon:

We are delighted that you will be a sponsor again this year for The Congressional Club's annual fundraiser. This, our Fifth Annual Chili Cook-Off, will be held at the Clubhouse, 2001 New Hampshire Avenue, N.W., at 7:00 p.m. on Tuesday, March 9th.

As before, we will have a dozen chefs drawn from the ranks of the Congress, with six Ambassadors judging their cooking prowess. This year's entertainment will also be done by Members of Congress.

Tickets for this event are $100 each and checks should be made payable to "The Congressional Club Chili Cook-Off".

Valet parking will be provided for your convenience.

Again, thanks for your continued support of our Club, and we look forward to a fun-filled evening.

Sincerely,

Barbara Dickinson

(Mrs.) Wm. L. Dickinson
Special Projects Committee

3/10/82 [illegible]

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Mr **Shelby**. I have in hand here a letter to your employee, General Mullins, from the Congressional Club. Could you explain the propriety of billing the Government, the American taxpayers, for $1,000 for a donation for the annual Congressional Club's chili cookoff in March 1982. This is a letter to General Mullins requesting participation, and the letter said the event was $100 each and so forth, and it is our understanding that you spent $1,000 and then billed the American taxpayer. That's a lot of chili.

Mr. **Lewis**. That's a lot of chili. I was under the impression that that had some charitable or something connotation.

Mr. **Shelby**. It's okay if it's charity if the American taxpayer is paying for it and not General Dynamics? Is that what you are saying?

Mr. **Lewis**. Either we are going to go by the laws or we are going to go by gossip.

Mr. **Shelby**. What we want you to do, Mr. Lewis, is to go by the law and obey the law. That is all we ask.

Mr. **Lewis**. I understand, but if whatever that organization is qualifies for a charitable contribution, if that is the case here, and I'm not sure, then I think it is appropriate to the extent that whatever percentage that is allowable as a charitable contribution—I have got my neck out here because I just have that impression, that it is a qualified charitable organization.

Mr. **Shelby**. Did you take that as a tax-deductible item, the $1,000, or do you not know?

Mr. **Lewis**. I don't know.

Mr. **Shelby**. Or did you bill the Government?

Mr. **Lewis**. I don't know that either.

Mr. **Shelby**. I bet you did one or the other, didn't you?

Mr. **Lewis**. I would hope that we did it within complete compliance with the law.

Mr. **Shelby**. Mr. Lewis, what is the Washington Industrial Team, Inc. and why did you bill the Government, the American taxpayers, $35,000 in January 1981 for membership in this organization; and further, of what benefit is this $35,000 that you billed the American taxpayers, what benefit is it to the American taxpayer? I have a copy of this where it was paid, $35,000. That is a lot of money to the American worker.

Could you tell us what it is and why you did it and who paid for it? And is this really a bona fide expense to the American taxpayer?

Mr. **Lewis**. This is not a charitable organization, I'm confident.

Mr. **Shelby**. Well, what is it?

Mr. **Lewis**. I believe it is a group of people who serve as a consultancy in the Washington area, and they provide consulting services to the company, I believe that's——

Mr. **Eckart**. And what do you consult with them on?

Mr. **Lewis**. I have not consulted with them, Mr. Eckart.

Mr. **Eckart**. Who does consult with them in your organization?

Mr. **Lewis**. Well, they are here, I believe, in Washington, and we have—I have large numbers of people from our various divisions in from time to time to review their programs with the Services, with the Congress. We have quite a few obligations to Congressmen. As I mentioned earlier, I think there are some on this committee that have interests or constituents in our communities.

Mr. Eckart. Well, what may those obligations be that the Washington Industrial Team, Inc. may provide to you?

Mr. Lewis. What are the consultation subjects? They meet with that group and get counsel and advice, like they do with more technical organizations. I have never had a meeting with that group, so I can't speak to it. But I think it is more than just the Washington office, I am trying to point out. We have used that and other consulting groups with our people to provide them with assistance and counsel.

Mr. Eckart. Mr. Lewis, if my friend continues to yield, on the voucher that we have, which I would like to enter as part of the record, your initials appear on this membership dues for 1981, a check for $35,000, No. 24040, account No. 87301, department 110, billed to the Government.

Now, if we have got $35,000 coming from GD paid for by American taxpayers to consult with the Congress, is this a back door lobbying team? Is this a scheme for honoraria? Is this organizational advice for us to do our postal patron mailings back to our constituents? What are you consulting with the Congress about for $35,000 that the taxpayers are paying through the Congress?

Mr. Lewis. You say we are consulting with the Congress?

Mr. Eckart. No. I thought I heard your answer to say that Members of Congress would use Washington—Industrial Team Inc.——

Mr. Lewis. I said that we have people from our divisions that come in and have meetings to inform, to learn and to advise of the status of our programs with Members of the Congress. I don't think that that group that you are referring to—I don't have any idea that they have ever talked to anyone in the Congress with respect to our——

Mr. Eckart. So you have no knowledge of Members of Congress coming to meet with Washington Industrial Team, Inc., for purposes of discussing legislation?

Mr. Lewis. I don't know that they do. Perhaps they do. I don't know. I have never met with them.

Mr. Eckart. One final question. Why would your initials appear on this voucher?

Mr. Lewis. Where do they appear, in the upper right-hand corner or down at the bottom?

Mr. Eckart. Right over here. Lower right-hand corner, below the dollar amount and the check number.

Mr. Lewis. That indicates—on the check?

Mr. Eckart. No, on the voucher.

Mr. Lewis. If that is my initials, that would indicate that I had approved that consulting fee. Is it annual——

Mr. Eckart. It says annual membership dues. It does not indicate that it is a consulting fee, Mr. Lewis.

Mr. Lewis. If those are my initials, that would mean that I had approved membership in that consulting—I don't understand the membership dues at this point.

Mr. Eckart. All I can say is that this is handwriting, and not provided by the committee but provided by General Dynamics, on the voucher.

Mr. **Lewis**. I am not questioning the accuracy of it.

Mr. **Eckart**. Is it not a bit unusual for the chairman of the board of a multi-billion-dollar corporation to be signing vouchers for membership dues? Is this your normal practice?

Mr. **Lewis**. It depends on the subject. Some are quite small and there's a lot of delegation that's quite a bit higher than that.

Mr. **Eckart**. And why is it that this organization was so special that it would have been brought to your attention for approval?

Mr. **Lewis**. Any consulting organization that we have, I try my very best to take the responsibility for those. Our people don't go out and hire consultants without my knowledge.

Mr. **Eckart**. Well, I think that's probably an admirable practice, if I may ask you to submit to this committee—I would like you to submit to the committee, based upon our inquiry, to the best of your knowledge your understanding what it is that Washington Industrial Team, Inc. does for General Dynamics.

I thank my friend for yielding.

Mr. **Shelby**. Mr. Lewis, I have a couple of quick comments and I will move on. Why does your firm, General Dynamics, continually bill the Government, the American taxpayer for liquor, when any reasonable person would not expect the taxpayer to pick up the bill, the tab for General Dynamics' liquor bill?

For example, I have here a bill for $864.59 where General Dynamics picked up the liquor bill for the Air Force Association, and subsequently billed the U.S. taxpayers. I also have other liquor bills that you have billed the Government. When are all these fraudulent-type billings—and those are my words—and when are they going to stop?

[Testimony resumes on p. 304.]

[The following documents were submitted:]

REQUES FOR DISBU RSEMENT (' CHECK

GENERAL DYNAMICS PRIVATE INFORMATION

PAYEE: WITCO
Washington Industrial Team, Inc

AMOUNT: $ 35,000.00

RECEIV
JAN

PURPOSE: Membership dues for 1981

DISTRIBUTION OF PAYMENT

ACCOUNT		DEPARTMENT		
NAME	NO.*	NAME	NO.*	AMOUNT
87301		110		35,000.00

PAID

REQUESTED BY J. P.Maguire DATE 1/16/81 APPROVED BY JR DATE 1/16/81

GDC 692 *FOR GENERAL ACCOUNTING USE ONLY

PAYEE W0822 Dues 1981

DESC

ACCT	DEPT	EMP	CLASS	AMT
87301	110			35,000.00

GDC 522 REV

D-2

GENERAL DYNAMICS PRIVATE INFORMATION

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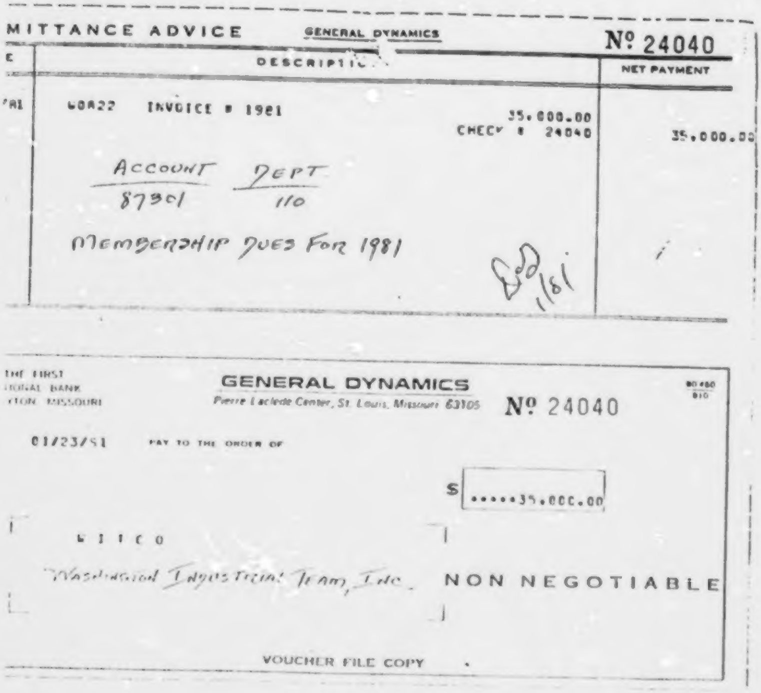
GENERAL DYNAMICS PRIVATE INFORMATION



MITTANCE ADVICE GENERAL DYNAMICS Nº 24040

E	DESCRIPTI…	NET PAYMENT
'AI	60A22 INVOICE # 1981 35.000.00 CHECK # 24040	35.000.00

ACCOUNT 87301

DEPT 110

MEMBERSHIP DUES FOR 1981

1/81

THE FIRST
IONAL BANK
TON MISSOURI

GENERAL DYNAMICS
Pierre Laclede Center, St. Louis, Missouri 63105

Nº 24040

80-480
810

01/23/81 PAY TO THE ORDER OF

$ 35.000.00

WITCO

Washington Industrial Team, Inc.

NON NEGOTIABLE

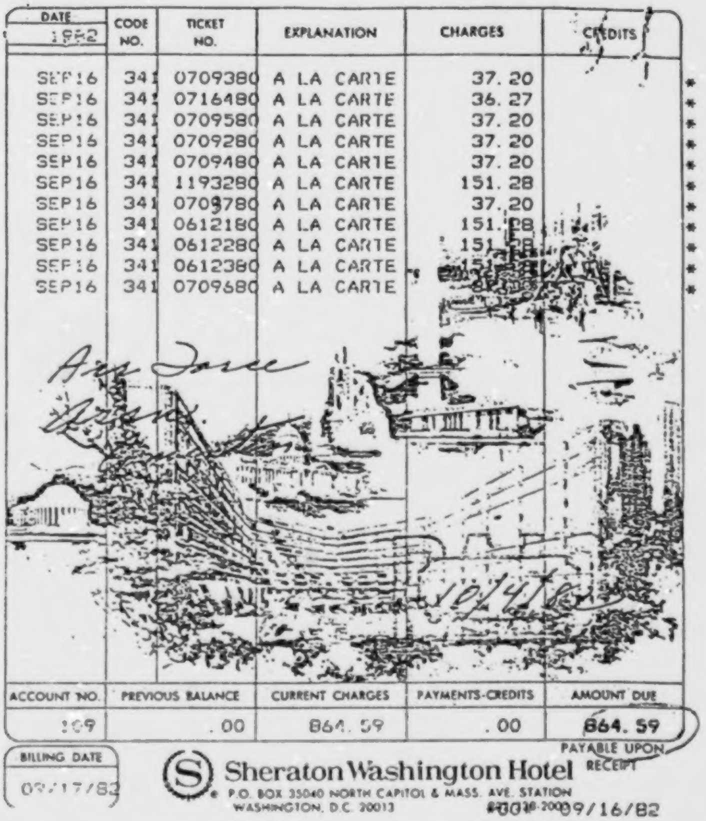
VOUCHER FILE COPY

CLAIMED
MEMBERSHIP DUES

GENERAL DYNAMICS PRIVATE INFORMATION

D-2

GENER.AL DYNAMICS PRIVATE INFORMATION



DATE 1982	CODE NO.	TICKET NO.	EXPLANATION	CHARGES	CREDITS	
SEP16	341	0709380	A LA CARTE	37.20		*
SEP16	341	0716480	A LA CARTE	36.27		*
SEP16	341	0709580	A LA CARTE	37.20		*
SEP16	341	0709280	A LA CARTE	37.20		*
SEP16	341	0709480	A LA CARTE	37.20		*
SEP16	341	1193280	A LA CARTE	151.28		*
SEP16	341	0709780	A LA CARTE	37.20		*
SEP16	341	0612180	A LA CARTE	151.28		*
SEP16	341	0612280	A LA CARTE	151.28		*
SEP16	341	0612380	A LA CARTE	151.[illegible]		*
SEP16	341	0709680	A LA CARTE	[illegible]		*

Air Force
Assn.

10/4/82

ACCOUNT NO.	PREVIOUS BALANCE	CURRENT CHARGES	PAYMENTS-CREDITS	AMOUNT DUE
109	.00	864.59	.00	864.59

PAYABLE UPON RECEIPT

BILLING DATE
09/17/82

Sheraton Washington Hotel
P.O. BOX 35040 NORTH CAPITOL & MASS. AVE. STATION
WASHINGTON, D.C. 20013

[illegible] 09/16/82

A LATE CHARGE

4184

If payment has been submitted prior to receiving this statement, please disregard.

DYNAMICS PRIVATE INFORMATION

1-1

Air Force Association

NOT CONCEDED

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GENERAL DY[illegible]AMICS PRIVATE INFOR[illegible]ATION

A LA CARTE 0070[illegible]3

9/15		341

General Dynamics
c/o [illegible] Tale
1745 Jefferson Davis Hig.
Arlington STATE VA [illegible]

[illegible] DuBois Banquets
[illegible] [illegible]

Table
A80
130

SUB-TOTAL	[illegible]
TAX	[illegible]
GRAT	[illegible]
	[illegible]

007095

BANQUET A LA CARTE 007[illegible]

	131	341

NAME PRINT General Dynamics
C/8 ANTA
ADDRESS 1745 Jefferson Davis Highway
CITY Arlington STATE Va. 22202

7/15 x10 29.25

A80
18 CHARGE 18

T131

OK
Geoff

SUB-TOTAL	29.25
TAX	2.34
GRAT.	4.68
TOTAL	36.27

D-1

291

291.

GENERAL DY..AMICS PRIVATE INFOR...ATION

BANQUET A LA CARTE 007097

1/11

34T

General Dynamics
c/o Anita Tene
1745 Jefferson Davis Highway
Arlington STATE VA 22202

6/s DeBoeuf Beaujolais
Villages @ 10 ea

Table # 159

A80

Rebelos

SUB-TOTAL	30 00
TAX	2 40
GRAT.	4 50
TOTAL	37 30

$ 007097

292

1/15

341

7095

General Dynamics
c/o Anita Tene
1745 Jefferson Davis Highway
Arlington STATE VA 22202

3/11 DeBoeuf Beaujolais
Villages @ 10 ea

Table
89

A80

9

Juhlpa

SUB-TOTAL	30 00
TAX	2 40
GRAT.	4 50
TOTAL	37 20

$ 007093

D-1

GENERAL DYNAMICS PRIVATE INFORMATION

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GENERAL DYNAM. S PRIVATE INFORMATI J

BANQUET A LA CARTE 007092

9/15

341

General Dynamics

c/o Anita True

1745 Jefferson Davis Highway

Arlington VA 22202

3 btl DuBoeuf Beaujolais

Villages @ 10.00

TABLE

38

A80

[illegible]

SUB TOTAL	30.00
TAX	2.00
GRAT	4.50
TOTAL	37.00

007092

BANQUET A LA CARTE 00709

9/15

341

NAME (PRINT) General Dynamics

c/o Anita True

ADDRESS 1745 Jefferson Davis Highway

CITY Arlington STATE VA 22202

3 btls DuBoeuf Beaujolais

Villages @ 10.00 ea

5 TABLE # 131

A80

9

W. RICHARDSON

SUB TOTAL	30.00
TAX	2.00
GRAT	4.50
TOTAL	37.00

007096

D-1

293

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GENERAL DYNAI. CS PRIVATE INFORMAT ON '83 96-727

006121

9/12 | SERVER NUMBER | 341 | CHECK NUMBER

General Dynamics
c/o Anita Tinn
1745 Jefferson Davis Highway
Arlington VA 22202

[redacted]

1	Smirnoff Vodka	40.00
1	Cutty Sark	40.00
1	Black Jack Daniels	42.00

Table # 89

A80

SARA MAUCK

	122.00
TAX	9.76
GRAT.	19.52
TOTAL	151.28

006121

9-121

BANQUET A LA CARTE 007094

9/15 | SERVER NUMBER | 341 | CHECK NUMBER

General Dynamics
c/o Anita Tinn
1745 Jefferson Davis Highway
Arlington VA 22202

3 Bl. Du Boeuf Beaujolais
Villages @ 10.00 ea

TABLE
39

08V

11. Gibson

SUB TOTAL	30.00
TAX	2.40
GRAT.	4.80
TOTAL	37.20

007094

D-1

GENERAL DYNAMICS PRIVATE INFORMATION

321

General Dynamics
c/o Anita Fare
1745 Jefferson Davis Hwy.
Arlington VA 2220[illegible]

1	Smirnoff Vodka	40
1	Cutty Sark	40
1	Black Jack Daniels	40

Table 159

ABD

S. GRANADOS

SUB TOTAL	120
TAX	6
GRAT	14
TOTAL	[illegible]

0061

341

General Dynamics
c/o Anita Fare
1745 Jefferson Davis Highway
Arlington VA 22202

	Smirnoff Vodka	40.00
	Cutty Sark	40.00
1	Black Jack Daniels	40.00

Table #131

N. RIVERA

ABD

SUB TOTAL	120.00
TAX	6.30
GRAT	16.50
TOTAL	[illegible]

006123

D-1

GENERAL DYNAMICS PRIVATE INFORMATION

2·12.

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GENERAL DYNAMICS PRIVATE INFORMATION

Sheraton Washington Hotel
BANQUET A LA CARTE 011932

9/1[illegible]

341

General Dynamics
C/o Anita Trump
1745 Jefferson Davis H.
Arlington VA 2[illegible]

1	Smirnoff Vodka	40
1	Cutty Sark	40
1	Black Jack Daniel's	4[illegible]

Table # 38

A80

O. [illegible] Bo, 2N, Z

SUB TOTAL	133 [illegible]
TAX	9 [illegible]
[illegible]AT	19 [illegible]
[illegible]TAL	1[illegible]

296.

GENERAL DYNAMICS PRIVATE INFORMATION

D-1

962

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D.O. 4443 #4-12

GENERAL DYNAMICS

EXPENSE REPORT

GENERAL DYNAMICS PRIVATE INFORMATION

TRAVEL REQUEST SERIAL NO. 2689 / 2783

NAME William W. Maurer
EMPLOYEE NO. 4094
DEPARTMENT NO. 710.
PERIOD FROM 11/21/83
TO 12/12/83

DATE	DESTINATION FROM	DESTINATION TO	CASH ADVANCE LOCATION	CASH ADVANCE AMOUNT	TRANSPORTATION CODE	TRANSPORTATION PROVIDED AMOUNT	TRANSPORTATION PURCHASED AMOUNT	HOTEL ROOM	MEALS (SELF) B	MEALS (SELF) L	MEALS (SELF) D	OTHER (EXPLAIN ON REVERSE)	TOTAL CASH EXPENS
12/6	Washington						.60						.6
12/7	Washington						2.00						2.0
12/8	Washington						1.20						1.2
12/12	Washington, DC →	Detroit, MI			BP	364.00	3.60 4.00					5.44 6.30	19.3
12/12	→ Return to DC												
		TOTALS				▨	44.75	69.14	12.72	6.00	32.64	244.48	409.73

INSTRUCTIONS

1. Trip purpose(s) are to be recorded on the reverse side of this form.
2. Advances are to be settled every two weeks or at the end of each trip, whichever occurs first.
3. Attach receipts for all expenses, paid by company or employee.
4. Attach all unused transportation tickets.
5. Car mileage, car rentals, taxis, parking, tolls, hospitality, telephone, telegraph and gratuities should be listed in the OTHER column with an explanation on the reverse side.
6. Transportation codes — ATP-airline credit card, BP-company bought ticket, H-Hertz, A-Avis Company rental cars.
7. Cash payment codes - CA (Air), CR (rail)
8. Cash advance location - Fill in [illegible]

EXPENSE SUMMARY

CASH ADVANCES ____
TOTAL CASH EXPENSE 409.73
REIMBURSEMENT DUE EMPLOYEE 409.73
REFUND DUE COMPANY ____
EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF [illegible]

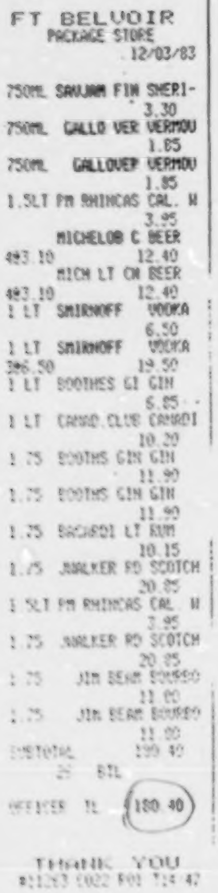
GENERAL DYNAMICS PRIVATE INFORMATION

APPROVALS

EMPLOYEE'S SIGNATURE William W. Maurer
DATE
APPROVED BY HANSEN

297

GENERAL DYNAMICS PRIVATE INFORMATION



```
FT BELVOIR
   PACKAGE STORE
          12/03/83

750ML SAUJAN FIN SHERI-
              3.30
750ML  GALLO VER VERMOU
              1.85
750ML   GALLOVEP VERMOU
              1.85
1.5LT PM RHINCAS CAL. W
              3.95
      MICHELOB C BEER
4@3.10       12.40
      MICH LT CN BEER
4@3.10       12.40
1 LT  SMIRNOFF   VODKA
              6.50
1 LT  SMIRNOFF   VODKA
3@6.50       19.50
1 LT  BOOTHES GI GIN
              6.85
1 LT  CANAD.CLUB CANADI
             10.20
1.75  BOOTHS GIN GIN
             11.90
1.75  BOOTHS GIN GIN
             11.90
1.75  BACARDI LT RUM
             10.15
1.75  JWALKER RD SCOTCH
             20.85
1.5LT PM RHINCAS CAL. W
              3.95
1.75  JWALKER RD SCOTCH
             20.85
1.75    JIM BEAM BOURBO
             11.00
1.75    JIM BEAM BOURBO
             11.00
SUBTOTAL     199.40
     25  BTL

OFFICER  TL   180.40

   THANK  YOU
#11283 C022 R01 T14:47
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D-3

GENERAL DYNAMICS PRIVATE INFORMATION

GENERAL DYNAMICS

EXPENSE REPORT

Page 1

GENERAL DYNAMICS PRIVATE INFORMATION

NAME William W! Maurbr.	4094	710	11/21/83	TRAVEL REQUEST SERIAL NUMB 2689 / 2783 TO 12/12/83

DATE	DESTINATION FROM	DESTINATION TO	CASH ADVANCE LOCATION	CASH ADVANCE AMOUNT	TRANSPORTATION CODE	TRANSPORTATION PROVIDED AMOUNT	TRANSPORTATION PURCHASED AMOUNT	HOTEL ROOM	MEALS (SELF) B	MEALS (SELF) L	MEALS (SELF) D	OTHER (EXPLAIN ON REVERSE)	TOTAL CASH EXPENSE
11/21	Washington, DC →	Dayton, OH			BP	289.00					18.65		18.65
11/21	Dayton, OH →	Lima, OH			H	75.99		34.57					34.57
11/22	Lima, OH →	Dayton, OH						34.57	5.75	6.00	13.99	14.70	75.01
11/23	Dayton, OH →	Washington, DC					.75		6.97			7.00	14.72
11/28	Washington						.60 2.00						2.60
11/29	Washington						3.60 7.00						10.60
11/30	Washington						1.20 2.00					14.60	17.80
12/1	Washington						2.00 .60						2.60
12/2	Washington						3.60						3.60
12/3	Washington						4.80					180.40	185.20
12/4	Washington											16.04	16.04
12/5	Washington						5.20						5.20
		TOTALS				▨							

INSTRUCTIONS

1. Trip purpose(s) are to be recorded on the reverse side of this form.
2. Advances are to be settled every two weeks or at the end of each trip, whichever occurs first.
3. Attach receipts for all expenses, paid by company or employee.
4. Attach all unused transportation tickets.
5. Car mileage, car rentals, taxis, parking, tolls, hospitality, telephone, telegraph and gratuities should be listed in the OTHER column with an explanation on the reverse side.
6. Transportation Codes - ATP-airline credit card, BP-company bought ticket, H-Hertz, A-Avis Company rental cars.
7. Cash payment codes - CA (Air), CR (rail)
8. Cash advance location - Fill in

EXPENSE SUMMARY

CASH ADVANCES ________

TOTAL CASH EXPENSE ________

REIMBURSEMENT DUE EMPLOYEE ________

REFUND DUE COMPANY ________

EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF

APPROVALS

EMPLOYEE'S SIGNATURE DATE

APPROVED BY

GENERAL DYNAMICS PRIVATE INFORMATION

299.

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GENERAL DYNAMICS PRIVATE INFORMATION

DATE	NOTES AND EXPLANATION	AMOU
11/21	BC-2(M1)18.65	
11/22	Refreshments-3(M1)14.70	
11/23	Subway--.75	
11/28	Mileage--Ofc/Pentegon/Ofc(3mi@.20mi).60 Mileage--Ofc/Hill/Ofc(10mi@.20mi)2.00	
11/29	Mileage--Ofc/Hill/Georgetown/Ofc--(18mi@.20mi)3.60 Parking--7.00	
11/30	Mileage--Ofc/Rosyln/Ofc(6mi@.20mi)1.20 Mileage--Ofc/Hill/Ofc(10mi@.20mi)2.00 BC-2(F-16)14.60	
12/1	Mileage--Ofc/Hill/Ofc(10mi@.20mi)2.00 Mileage--Ofc/Pentagon/Ofc(3mi@.20mi).60	
12/2	Mileage --Ofc/Ft. Meyer/DC/Ofc--(18mi@.20mi)3.60	
12/3	Mileage--Ofc/Ft.Belvoir/Ofc(24mi@.20mi)4.80 Restock Supplies at Condominium--180.40	D-3
12/4	Restock Supplies for Condomiun--16.04	

~~BUSINESS TRIP PURPOSE(S)~~

12/5	Mileage--Ofc/Ft. Belvoir/DC/Ofc-(26mi@.20mi)5.20
12/6	Mileage--Ofc/Pentagon/Ofc(3mi@.20mi).60
12/7	Mileage--Ofc/Hill/Ofc(10mi@.20mi)2.00
12/8	Mileage--Ofc/Rosslyn/Ofc(6mi@.20mi)1.20
12/12	Mileage--Ofc/DC/Arlington/Ofc(18mi@.20mi)3.60 BC-2(M1)5.44 Taxi--Airport/Office--4.00 Refreshments(2) M1--6.30
	BUSINESS TRIP PURPOSE(S)
11/21-11/23	DC/Dayton,OH/Lima,OH/Dayton,OH/DC--Accompany Congressional Visit to Lima Army Tank Plant.
12/12	DC/Detroit, MI/DC--Accompany Congressional Visit to General Dynamics Land Systems Division.

GENERAL DYNAMICS PRIVATE INFORMATION

GENERAL DYNAMICS PRIVATE INFORMATION

D.0.4523

81400

CLAIMED

[illegible]
DEPARTMENT OF [illegible]
STORE 106
05 11 84

1.75L [illegible]
[illegible]

TOTAL 106.45

THANK YOU

GENERAL DYNAMICS
Washington Operations

Date 14 May 1984

To Joanne

From Louise

This is total amount that I personally paid out for the party. Anita told me to have the platters and mixers charged at Larimer's.

The attached is for table cloths, napkins, etc., plus some chips, nuts, lemons, limes, etc. from Larimers.

Total: $37.47

Thanks

[illegible] PRIVATE INFORMATION

DATE	NOTES AND EXPLANATION	AMOUNTS
6/25	Business Conference Expenses: (2 - F-16) Baggage handling: 2.00	
6/26	BCE: (2 - ACM) Parking: 5.00	
6/29	BCE: (3 - ACM)	
6/30	BCE: (2 - GMAG)	
7/4	BCE: (2 - ACM)	
	Crystal City CLub Charges: BCE's (2 - 688) (2 - GLCM)	
	Congressional CC Charges: BCE (3 - GLCM)	
	Trip to St. Louis to attend Col. Crown birthday: Telephone: 12.26, BCE (2-688)	

BUSINESS TRIP PURPOSE(S)

6/25	To Dayton to attend NSIA reception

BEST COPY AVAILABLE

B-3

302

BEST COPY AVAILABLE

GENERAL DYNAMICS

GENERAL DYNAMICS PRIVATE INFORMATION Voucher # 463448

EXPENSE REPORT

NAME EDWARD J. LEFEVRE	EMPLOYEE NO 0216	DEPARTMENT NO 710	PERIOD FROM 13 June 84	TO 24 June 84	TRAVEL REQUEST SERIAL NUMBER

DATE	DESTINATION FROM / TO	CASH ADVANCE LOCATION	CASH ADVANCE AMOUNT	TRANSPORTATION CODE	PROVIDED AMOUNT	PURCHASED AMOUNT	HOTEL ROOM	MEALS (SELF) B	L	D	OTHER (EXPLAIN ON REVERSE)	TOTAL CASH EXPENSE
6/13	DCA/St. Louis			Company a/c								
6/14	St. Louis/DCA			BP	195.00 195.00						2.00	2.00
6/16	Washington										24.00	24.00
6/17	"										26.74	26.74
6/19	Washington										5.00 20.00	25.00
6/23	DCA/Williamsburg, VA			Co. Auto			49.18				19.60 37.80	106.58
6/24	Williamsburg, VA/DC			" "							10.00	10.00
	Pisces Club Dues										200.00	200.00
	Late Entry (Trip to NYC 6/11/84)						137.31				9.50	146.81
	TOTALS						186.49				354.64	541.13

RECEIVED
JUN 28 1984

INSTRUCTIONS	EXPENSE SUMMARY	APPROVALS
1 Trip purpose(s) are to be recorded on the reverse side of this form. 2 Advances are to be settled every two weeks or at the end of each trip, whichever occurs first. 3 Attach receipts for all expenses, paid by company or employee. 4 Attach all unused transportation tickets. 5 Car mileage, car rentals, taxis, parking, tolls, hospitality, telephone, telegraph and gratuities should be listed in the OTHER column with an explanation on the reverse side. 6 Transportation codes — ATP-airline credit card, BP-company bought ticket, H-Hertz, A-Avis, Company rental cars. 7 Cash payment codes: CA (Air), CR (rail). 8 Cash advance location: Fill in with appropriate Division/Subsidiary location.	CASH ADVANCES ____ TOTAL CASH EXPENSE 541.13 REIMBURSEMENT DUE EMPLOYEE 541.13 REFUND DUE COMPANY ____ EITHER A RECEIPT FROM THE TREASURER'S OFFICE OR A CHECK FOR THE AMOUNT OF THE REFUND MUST BE SUBMITTED WITH	EMPLOYEE'S SIGNATURE DATE E J LeFevre APPROVED BY

303

303

Mr. Shelby. Doesn't all of this that has been brought out today and before today by prior investigations undermine the basic public trust which, in the end, supports you, your company and provides a lot of the defense of this country? Don't you think we ought to have integrity?

Mr. Lewis. Well, you are making a statement that the billing of this sort you mention is fraudulent. I don't know whether you are a lawyer. I am certainly am not.

Mr. Shelby. I am a lawyer, but that doesn't mean that---

Mr. Lewis. You said those were my words. I think when you call it fraudulent, certainly any bills that we have that are fraudulent—we don't believe we have any fraudulent bills at all. We have, as I said earlier, we have made mistakes. There is room for debate what the purpose of the negotiation between the contracting officers and the company is all about; but to call them fraudulent, I just don't see the grounds for that. And the more of that kind of talk that is spread around is what we have been subjected to for the last year—completely, in our judgment, inaccurately. It definitely will undermine the competence of America, and it goes to the point of Mr. Slattery that he feels that this confidence is vitally important, and so do I.

Mr. Shelby. Mr. Lewis, I agree that the confidence is vitally important, just like our defense, but I also feel that we in the Congress owe the American people a responsibility to ferret this out. We feel, further, that you and General Dynamics owe the American people a lot since they are your number one client, and you are representing that company, who has continued—it looks like a scheme, just looking here at it, a scheme to defraud the American taxpayer.

There is $50 million worth of documents now in dispute. That is a lot of money. That is not small change, not to the American people. And you say we are undermining. What we are interested in is getting a dollar's worth of defense for a dollar's worth of tax, and that is what the American people—they are going to support a strong defense. But we want you to support an honestly run and run an honest company, and I don't believe you have.

Mr. Dingell. The time of the gentleman has expired. The Chair is going to recognize the gentleman from Ohio.

Mr. Eckart. Mr. MacDonald, who is Colonel Crown?

Mr. Lewis. Col. Henry Crown is a man who lives in Chicago. He is a principal shareholder, or his family is, of General Dynamics. He is the chairman of the Executive Committee of our Board of Directors.

Mr. Eckart. So he is a man who obviously has an official position of importance to the Government?

Mr. Lewis. Yes.

Mr. Eckart. Who is a Mr. E.J. Le Fevre?

Mr. Lewis. Mr. E.J. Le Fevre is vice president of General Dynamics and is director of our field offices, including the Washington office.

Mr. Eckart. In June of 1984, Mr. MacDonald approved a trip for Mr. Le Fevre and his wife to fly from Washington, DC to St. Louis to "attend Colonel Crown's birthday party." We have the vouchers charged to the Government in the travel account to substantiate that. Would you please explain what was the significance of Colonel Crown's birthday party and why the American taxpayers should pay for it?

Mr. LEWIS. I do not think that that is an appropriate charge to the taxpayers or to the contracts under which we do business.

Mr. ECKART. Can we expect a refund from General Dynamics to the Treasury for the purposes of the charges that the——

Mr. LEWIS. We paid the bill. It wasn't necessary to refund. Has the Government paid that bill? I would doubt it very seriously. In fact, to the best of my knowledge, the last year that payments have been made and agreed to was 1979, and I don't have any idea whether—I am confident that the bill hasn't been paid. I shouldn't say that. I am confident that it has been agreed that that isn't an allowable bill.

Mr. ECKART. Let me ask Mr. McDonald, why would that have been even attempted to be vouchered?

Mr. MACDONALD. It hasn't been vouchered.

Mr. ECKART. Did you not approve it?

Mr. MACDONALD. We paid for Mr. Le Fevre's expense to come to St. Louis to attend Colonel Crown's party. We have not submitted our overhead claim for the year 1984 as yet, and that will not be in that claim when we submit it. That is where I said a while ago, Mr. Eckart, you have to be careful. We do pay a bill but we don't necessarily charge it to the Government.

Mr. ECKART. Well, then again I would refer you back to my remarks that it almost seems like—my concern is that your institutional processes by which you catch these things on your own, and it does most, as I said, it almost reflects "catch us if you can. You run as much stuff through that the Government doesn't collect and what we send you."

Mr. LEWIS. Let's be fair. I think this committee and its investigators and those who have assisted them have found some cases that they have drawn to our attention that looked very wrong to us. We are trying to take this effort that they have expended, and if it is extended by the chairman, constructively. But at the same time, where those issues do finally—those horror stories, if you wish—do finally wind up getting paid by the taxpayers, then I think that is a legitimate cause for concern.

I think it is also a cause for concern if we try to slide these things in, as you more or less described it, past the auditors and past the ACO's.

But until and unless either of those functions take place—you know, your statements are hypothetical. And to use a hypothetical statement that there's a bill in our files that says we paid the travel affairs for Mr. LeFevre, or we bought this or we bought that.

Whether that would say, well, that is in your files; has it been paid by the taxpayers? Until that last point is reached, the answer it's hypothetical.

Mr. ECKART. Well, I think your point is a very good one, but under the provisions of progress payments, are not ongoing payments going forward to General Dynamics, even though there is not payment in full, subject to an after-the-fact audit?

Mr. LEWIS. Actually, they are paid, but we agree a year or two in advance on a broad number. This is the agreed on overhead amount that will be applied to 1985, for example, and to that extent, the bills are paid on the progress payments, as you described them, or partial payments. Whatever the contract calls for.

So to that extent, if we just use the number of 100, if we have agreed on 100 and the final number comes out to be 101 or 99 or 95, that is the definition, and there is a settlement up of accounts in the end. But until that bill that you referred to, going to the birthday party, is approved by the ACO, it will never appear in the final settlement that goes on generally a year or two or three after the fact.

Mr. **Eckart**. Why do I keep getting back to the point that it appears that we are finding things that you ought to be finding on your own? Aren't you capable of finding wrong billings and misallocations of billings in your own internal processes and narrowing that 80 or 90 percent progress payment figure down as accurately as possible, thus lessening our burden and yours?

Mr. **Lewis**. I tried to explain to you, sir; that 80 or 90 percent progress payments has absolutely nothing to do with any billings. Zero. Now, I will try to go through it again for you.

We project, based on the amount of business we have, which is more statistical, our backlog, our forecast for this year—we have, as I mentioned, about 1000 contracts with the U.S. Government. We try to judge together and negotiate with the overhead people in the Government what our reasonable overhead as a bulk number should be, and that is for billing purposes only and has no definition as to numbers of people, vouchers for buying pieces of equipment. Pencils, paper are clearly eligible things, all things that you would question.

It has nothing to do with attitude. It's a billing number. And the whole thing—when you have, as we have, about 7.5 to 8 billion dollars' worth of business, you cannot sit and negotiate every bill currently. That is beyond the capability of both sides, and that is why we have these overhead agreements sent forward.

But in the final analysis, only the allowable bills that are approved by the ACO are paid. This is a settlement of accounts, of course.

Mr. **Eckart**. Let me move to a current matter of controversy between you and the Navy. In November 1984, the Navy issued a letter to you to immediately cease billing the Government for legal and other costs associated with the so-called eight ongoing investigations of alleged fraudulent activities. The Navy contends that such costs are unallowable charges to the Government.

You have responded in a letter dated January 7 that you refuse to cease such billing because General Dynamics feels that they can charge the Government for such costs within the meaning of defense procurement regulations.

Can you kindly explain your position? Your letter stated your position, I would like an explanation of it.

Mr. **Lewis**. As I understand your statement, it was that the Navy requests that we not bill for legal assistance or counsel. Our position, I think, is quite easy. If we are doing business with the Government and we are charged or brought into an action by the Government which is legal, discusses legal issues or legal controversy, with, in our judgment, no overtones, semblance or evidence, not anything of fraud, that that is a legitimate charge to the Government.

There are obviously here two branches of Government involved. One is the purchaser and one is the critic. You have, quite properly, engaged us in this affair today and over the last year, and if we need counsel to respond to the investigation of the committee, we feel that is quite an appropriate charge.

We do not question, certainly, the propriety of the committee's investigation, nor do we consider or question the propriety of our preparing for that investigation and responding to it.

Mr. ECKART. Mr. Lewis, I would assume that if these investigations resulted in anything more serious to your company or to its corporate officers which resulted in further legal entanglements, that the taxpayers would be expected to further foot the bill for defense in a criminal——

Mr. LEWIS. As I understand the law, if there is in the final analysis illegal action decided by the courts, fraud or whatever—we had that long grand jury action that I referred to earlier—that resulted in fraud, it is my understanding that those legal fees are totally disallowable. That is my understanding.

Mr. ECKART. And that would continue to be your corporate position as well?

Mr. LEWIS. We follow the law. Whatever the law says. If the law says you can't pay those bills, we can't charge them. That's my understanding.

Mr. SLATTERY. I am going to have to leave in just a few minutes because I have to return to the Budget Committee and continue my work over there, Mr. Lewis, but as I leave, I have a few more questions about what appear to be questionable expenditures that you have made and in turn billed to the Government. Specifically I am now concerned about why you would apparently pay to entertain military government personnel at a place called the Carabao Wallow, whenever that is.

How can you possibly justify billing the Federal Government annually for almost $2,000 for this kind of entertainment at this particular whatever it is, a nightclub or dinner or restaurant or someplace?

Mr. LEWIS. I have never attended one of those and I don't know what it is either, other than the fact that I understand it is a meeting of media members—clubs or something—attended very heavily by Members of the Congress and so on.

Mr. SLATTERY. Well, apparently on this particular occasion you were entertaining——

Mr. LEWIS. Which occasion is that?

Mr. SLATTERY. The date here is January 10, 1983. One date. And you apparently were entertaining a number of high ranking military people. I don't want to start reading off names of people that are mentioned here, but there are colonels in the Air Force and, apparently, in the Navy of equivalent rank. I'm just wondering why you can't conduct business over at the Pentagon or someplace else. Why do you have to spend $2,000 at an expensive restaurant or club in this area to apparently conduct business?

Mr. LEWIS. The only one case that I can answer that I have heard of on this Carabao is I think it's an annual dinner, not a club or restaurant, I think.

Mr. SLATTERY. It could be. I don't know anything about it.

Mr. LEWIS. I don't either, but I understood that in that case, the one case I know of, that one of our people had been a writer of a play or skit or whatever they had, and he had expected to be given four tickets to that affair, to that dinner by the organization itself, which is similar to the way the Air Force Association invites military people.

[Testimony resumes on p. 321.]

[The following documents were submitted:]

GENERAL DYNAMICS PRIVATE INFORMATION

GENERAL DYNAMICS
Washington Operations
745 Jefferson Davis Highway, Arlington, Virginia 22202
03 553-1200

10 January 1983

CLAIMED

Carabao Wallow Committee
Army & Navy Club
Farragut Square and I Street
Washington, D. C. 20006

Dear Sirs:

I am enclosing a subscription form and check for $485.00 to cover dues and the fee for eight guests attending this year's Wallow. It is my understanding that as a member of the Players, I am entitled to free admission and one free guest. Thus, the total of people on my list is ten -- myself and nine others -- constituting one table.

The table assigned to me last year, number 10, was great and I hope it or a similar one will be available this year.

Thanks very much for your help.

Sincerely,

Alvin A. Spivak
Director, News and Information
Washington

Pd. 1/12/83

AAS:sf
Enclosures

300.00 - 81400 - 850
5.00 - 81700 - 850
180.00 - 81400 - 710 D.O. 425

56-727 405

A-1

3/13.14.15

MILITARY ORDER OF THE CARABAO

GENERAL DYNAMICS PRIVATE INFORMATION

SUBSCRIPTION BLANK

DATE: 10 January 1983

SEND IN YOUR SUBSCRIPTION EARLY to Carabao Wallow Committee, Army & Navy Club, Farragut Square and I Street, N.W., Washington, DC 20006, Telephone: NA 8-8400. Subscriptions will be closed at 700 members and guests.

TARRIFF:	Enclose check made payable to Treasurer M.O.C.		305 00
	Dues $5.00 per year	$5.00	JDI
	Members and Guest $60.00 each	$480.00	JDI 850
	Carabao Insignia	$	
	TOTAL	$485.00	$180 00 DOR's

ENCLOSED check for $485.00 ~~for member and~~ 8 guests to Annual Dinner, February 5, 1983.

(PLEASE PRINT OR TYPE)

CARABAO NAME Alvin A. Spivak RANK --- BRANCH ---
ADDRESS 9201 Fernwood Road
Bethesda, Maryland 20817
HOME PHONE BUSINESS PHONE 553-1224

1.Guest NAME Michael I Burch RANK Lt. Col. BRANCH USAF
ADDRESS The Pentagon, Room 2E800
Washington, D. C. 20301

2.Guest NAME Grant Dillman RANK --- BRANCH ---
ADDRESS United Press International
315 National Press Building
Washington, D. C. 20045

3.Guest NAME Robert Novak RANK --- BRANCH ---
ADDRESS 1750 Pennsylvania Avenue, N.W., Suite 1312
Washington, D. C. 20006

THE COMMITTEE MAINTAINS THE OPTION TO LIMIT THE NUMBER OF GUESTS ANY MEMBER MAY BRING. ANY LIMIT WILL BE BASED ON SEATS AVAILABLE AND PAST SUBSCRIPTIONS. ADVISE YOUR GUESTS COCKTAILS AT 6:00PM. WALLOW FESTIVITIES BEGIN PROMPTLY AT 7:00PM.

B ( )
C ( )
I ( )

GENERAL DYNAMICS PRIVATE INFORMATION

PAGE 2 OF M.O.C. FROM A. A. SPIVAK

4. Guest --

5. Guest --

6. Guest --

7. Guest -- E. J. LeFevre
Suite 1000
1745 Jefferson Davis Highway
Arlington, Virginia 22202

* 8. Guest -- Lawrence A. Skantze, Lt. Gen., USAF
Deputy Chief of Staff
Research, Development and Acquisition
Department of the Air Force
Washington, D. C. 20330

* 9. Guest --

* Please send invitation to General Skantze and in the name of E. J. LeFevre.

GENERAL DYNAMICS CORPORATION
Washington Operations

Inter-Office Memo

January 11, 1984

Carabao Wallow Committee
Army/Navy Club
Farragut Square and Eye Street
Washington, D. C.   20006

Dear Sirs:

I am enclosing a subscription form and check for $530.00 to cover dues ($5.00) and the fee for seven guests ($525.00) attending this year's Wallow. It is my understanding that as a member of the Players, I am entitled to free admission and one free guest. Joe Sutherland, who also is at my table, will be assisting John Hartnett as a Players member this year, allowing for another free slot. That leaves seven paying spaces, for which payment is provided.

The table assigned to me last year, number 10, was excellent and while I understand the room will be rearranged this year, I hope a similar one will be available.

Thanks very much for your help.

Sincerely,

Alvin A. Spivak
Director/News and Information

AAS:sf
Enclosures

1/10/84

(530.00)

1400 850 $530
✓ 736 720
✓ 710 720

A-1

Military Order of the Carabao

SUBSCRIPTION BLANK

DATE: 7 January 1984

SEND IN YOUR SUBSCRIPTION EARLY to Carabao Wallow Committee, Army & Navy Club, Farragut Square and I Street, N.W., Washington, DC 20006, Telephone: 628-8400. Subecriptions will be closed at 800 members and guests.

TARRIFF: Enclose check made payable to Treasurer M.O.C.

Dues $5.00 per year	$ 5.00
Members $60.00 each	$ —
Guests $75.00 each	$ 525.–
Carabao Insignia	$ —
TOTAL ....(checks only)..........	$ 530.–

ENCLOSED check for $ 530.– for self, and 9 guests to Annual Dinner, February 4, 1984.

(PLEASE PRINT OR TYPE)

CARABAO NAME Alvin J. Spivak RANK Sgt. BRANCH USAF

ADDRESS 9201 Fernwood Road

Bethesda, Md. 20817

HOME PHONE [redacted] BUSINESS PHONE 553-1224

1. Guest NAME Joseph P. Sutherland RANK -- BRANCH --

ADDRESS 1002 G Street, S.E.

Washington, D.C. 20003

2. Guest NAME [redacted] RANK Capt BRANCH USN (Ret)

ADDRE. [redacted]

3. Guest NAME William H. Gregory RANK -- BRANCH --

ADDRESS Aviation Week & Space Technology
Suite 710
1777 North Kent St.
Arlington, Va. 22209

THE COMMITTEE MAINTAINS THE OPTION TO LIMIT THE NUMBER OF GUESTS ANY MEMBER MAY BRING. ANY LIMIT WILL BE BASED ON SEATS AVAILABLE AND PAST SUBSCRIPTIONS. ADVISE YOUR GUESTS COCKTAILS AT 6:00 PM. WALLOW FESTIVITIES BEGIN PROMPTLY AT 7:00 PM.

B ( )
C ( )
I ( )

PAGE 2 OF M.O.C. LIST FROM A.A. SPIVAK

4. Guest -- George Flynn
United Technologies Corp.
Suite 700
1825 Eye St., N.W.
Washington, D.C. 20006

5. Guest -- Ronald Cohen
Managing Editor
United Press International
1499 Eye St., N.W.
Washington, D.C. 20005

6. Guest -- Colonel, USAF

7. Guest -- Colonel, USA

8. Guest -- Hon. Michael I. Burch -- Lt. Col., USAF (RET)
Asst. Secy. Defense/Public Affairs
The Pentagon
2E800
Washington, D.C. 20301

9. Guest -- (name to be provided)

Military Order of the Carabao

SUBSCRIPTION BLANK

DATE: ____________

SEND IN YOUR SUBSCRIPTION EARLY to Carabao Wallow Committee, Army & Navy Club, Farragut Square and I Street, N.W., Washington, DC 20006, Telephone: 628-8400. Subscriptions will be closed at 800 members and guests.

TARRIFF: Enclose check made payable to
Treasurer M.O.C.
Dues $5.00 per year ....$ 5.00
Members $60.00 each ....$ 60.00
Guests $75.00 each ....$ [illegible]
Carabao Insignia ....$
TOTAL ....(checks only)..........$ [illegible]

ENCLOSED check for $1,440.00 for self, and _______ guests to Annual Dinner, February 4, 1984.

(PLEASE PRINT OR TYPE)

CARABAO NAME W.H.L. "Moon" Mullins RANK B/G (Ret) BRANCH USAF
ADDRESS [illegible] Tarpon Lane
Alexandria, VA. 22309
HOME PHONE ________ BUSINESS PHONE 5571290

1. Guest NAME ALTON G. KEEL JR RANK ________ BRANCH ________
ADDRESS 120? NORTH NASH ST
ARLINGTON VA

2. Guest NAME ________ RANK CAPTAIN ( ) BRANCH USN
ADDRESS ________

3. Guest NAME L. WAYNE ARNY III RANK CDR (resigned) BRANCH USN
ADDRESS [illegible] APPLE HILL ROAD
ALEXANDRIA, VA 22308

THE COMMITTEE MAINTAINS THE OPTION TO LIMIT THE NUMBER OF GUESTS ANY MEMBER MAY BRING. ANY LIMIT WILL BE BASED ON SEATS AVAILABLE AND PAST SUBSCRIPTIONS. ADVISE YOUR GUESTS COCKTAILS AT 6:00 PM. WALLOW FESTIVITIES BEGIN PROMPTLY AT 7:00 PM.

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C ( )
I ( )

1/12/84

BEST COPY AVAILABLE

Military Order of the Carabao

SUBSCRIPTION BLANK

DATE: January 5, 1984

SEND IN YOUR SUBSCRIPTION EARLY to Carabao Wallow Committee, Army & Navy Club, Farragut Square and I Street, N.W., Washington, DC 20006, Telephone: 628-8400. Subscriptions will be closed at 800 members and guests.

TARRIFF: Enclose check made payable to
Treasurer M.O.C.
Dues $5.00 per year ....$ 5.00
Members $60.00 each ....$ 60
Guests $75.00 each ....$ 300
Carabao Insignia ....$ ____
TOTAL ....(checks only)..........$ [illegible]

ENCLOSED check for $ ________ for self, and ________ guests to Annual Dinner, February 4, 1984.

(PLEASE PRINT OR TYPE)

CARABAO NAME Billy R. Kellum RANK RM3 BRANCH USN
ADDRESS 2111 S. Jefferson Davis Highway, Apt. #505N
Arlington, VA 22202
HOME PHONE ________ BUSINESS PHONE 703-553-1276

1. Guest NAME Nils R. Thunman RANK VAdm. BRANCH USN
ADDRESS Office of the Deputy Chief of Naval Operations
(Submarine Warfare)
The Navy Department, Washington, DC 20350

2. Guest NAME Fritz G. Tovar RANK Vice Pres. BRANCH Gen. Dynamics
ADDRESS Eastern Point Road
Groton, CT 06340

3. Guest NAME E. J. LeFEURE RANK ________ BRANCH ____
ADDRESS 8801 BEL AIR PLACE
POTOMAC, MARYLAND

THE COMMITTEE MAINTAINS THE OPTION TO LIMIT THE NUMBER OF GUESTS ANY MEMBER MAY BRING. ANY LIMIT WILL BE BASED ON SEATS AVAILABLE AND PAST SUBSCRIPTIONS. ADVISE YOUR GUESTS COCKTAILS AT 6:00 PM. WALLOW FESTIVITIES BEGIN PROMPTLY AT 7:00 PM.

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I ( )

A-1

Military Order of the Carabao

SUBSCRIPTION BLANK

DATE: ____________

SEND IN YOUR SUBSCRIPTION EARLY to Carabao Wallow Committee, Army & Navy Club, Farragut Square and I Street, N.W., Washington, DC 20006, Telephone: 628-8400. Subscriptions will be closed at 800 members and guests.

TARRIFF: Enclose check made payable to
Treasurer M.O.C.
Dues $5.00 per year ....$ ~~5.00~~
Members $60.00 each ....$ 60.00
Guests $75.00 each ....$ 300.00
Carabao Insignia ....$ ____
TOTAL ....(checks only)..........$ 360.00

ENCLOSED check for $_________ for self, and _______ guests to Annual Dinner, February 4, 1984.

(PLEASE PRINT OR TYPE)

CARABAO NAME Curtis J. Glasser RANK LtGen (R) BRANCH USAF
ADDRESS 7725 Crossover Dr
McLean VA 22102
HOME PHONE __ BUSINESS PHONE 553-1218

1. Guest NAME + BRANCH USAF
ADDRESS
E

2. Guest NAME __ BRANCH STATE
ADDRESS

3. Guest NAME Richard W. Murphy RANK Amb. BRANCH STATE/Asst.
Bureau of Near East & So. Asian Affairs
ADDRESS Room 6244
Dept. of State
2201 C St, N.W
Washington D.C. 20520

THE COMMITTEE MAINTAINS THE OPTION TO LIMIT THE NUMBER OF GUESTS ANY MEMBER MAY BRING. ANY LIMIT WILL BE BASED ON SEATS AVAILABLE AND PAST SUBSCRIPTIONS. ADVISE YOUR GUESTS COCKTAILS AT 6:00 PM. WALLOW FESTIVITIES BEGIN PROMPTLY AT 7:00 PM.

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A-1

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON D.C. 20301

PUBLIC AFFAIRS

JAN 31 1985

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
INSPECTOR GENERAL
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: CARABAO WALLOW

On January 30, 1985, the General Counsel cautioned DoD personnel to consider the provisions of the Standards of Conduct Directive (DoDD 5500.7) as they may pertain to attendance at the subject event. Subsequently, the sponsoring organization has agreed to comply with the Standards of Conduct Directive and seating procedures required.

The Department of Defense has now approved attendance of DoD personnel at the Carabao Wallow, subject to the following conditions: DoD personnel may attend the Wallow if the cost is paid by (1) the military member or DoD employee himself, (2) the Military Order of the Carabao, (3) any other source that is neither engaged in, nor seeks business or financial relations of any sort with, any DoD component. If invited by the Order, invitees will be seated randomly.

Michael I. Burch

DEPARTMENT OF THE AIR FORCE
WASHINGTON D C 20330

OFFICE OF THE SECRETARY

1 FEB 1985

MEMORANDUM FOR DISTRIBUTION C

SUBJECT: Carabao Wallow, February 2, 1985 - INFORMATION MEMORANDUM

The Office of the Assistant Secretary of Defense (Public Affairs) has asked that the attached guidance for the 85th Annual Wallow of the Military Order of the Carabao be given the widest dissemination within your office. This is a restatement of existing guidance concerning attendance at events which involve defense contractors. We encourage you to continue to represent the Air Force at important civic events. We simply need to take proper cautions to avoid dealings which compromise or appear to compromise appropriate standards of conduct.

Richard F. Abel
RICHARD F. ABEL
Brigadier General, USAF
Director of Public Affairs

1 Attachment
OASD/PA Memo, 31 Jan 85

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON D.C. 20301

PUBLIC AFFAIRS

JAN 31 1985

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Mr. **Slattery**. OK. Let's just move on quickly, if we can.

Mr. Lewis, after what we have heard today, do you believe that these kinds of billings are legitimate, or do you plan to continue to bill the Government for these kinds of functions?

Mr. **Lewis**. I think we have a great deal of work to do to be much more precise and make sure that things that are not allowable are not submitted and not put through the wringer of——

Mr. **Slattery**. Let me ask you one other followup question. Why is it that General Dynamics is paying for the entertainment of military people to attend these kind of functions?

Mr. **Lewis**. I'm trying to explain that one. That is the one that I know of. The man that invited these four people, with the understanding——

Mr. **Slattery**. There are several occasions. This is not just one event, Mr. Lewis. There are several occasions. The principal question is why does General Dynamics pay for the entertainment of military people to attend social functions, in effect?

Mr. **Lewis**. Well, they are not supposed to do that. That is against the regulations.

Mr. **Slattery**. My question to you, Mr. Lewis, is: What plans do you have to stop this sort of thing with General Dynamics after you leave here today, assuming you continue as CEO and chairman of the board or whatever you are of General Dynamics?

Mr. **Lewis**. Is that a leading statement?

Mr. **Slattery**. I just don't like to make assumptions in my business about anything.

Mr. **Lewis**. Well, I think we have a job to do in this area. I think the Congress has a job to do in this area, also. The Department of Defense people, of which there are thousands and thousands here, have a unique problem, and there are people that deal quite legitimately with each other, and we are constantly find conflicts, and it isn't only our company—and one of you has pointed this out. There is practically nothing that can be done that doesn't get someone in trouble accidentally or whatever.

We would be very hopeful that the entire issue could be cleared up from one end to the other by the Congress, and only the Congress can do this, can give some reasonable tolerance for a reasonable, fair and objective entertainment, if you will, to, for example, the level that is allowed by the Congress for its people.

Until that is done, we have to follow the law, and we are going to see that it is done.

Mr. **Slattery**. Let me just remind you of one statute. You were talking about the Law. It is 18 U.S.C. 201. This particular statute apparently prohibits the payment of entertainment expenses to military people. What we are looking at here with this particular instance and several instances of this. It is a clear violation of 18 U.S.C. 201. It certainly appears to be.

Mr. **Lewis**. I agree.

Mr. **Slattery**. Let me just shape another issue here a little bit, if I can. What we are really talking about is the whole question of the role of a company that purports to be a private enterprise whose very existence is totally dependent upon its relationship with the Department of Defense. Ninety-four percent of your business we hear today, is tied up with the DOD.

Now, the problem is, in a broader sense, what conduct do the taxpayers have a right to expect from the corporate leaders of that corporation that is privately owned in its conduct with the DOD, where 94 percent of your money, your corporate existence depends on your performance with DOD?

The question is, what conduct can we expect from the corporate leaders of such a company? You are almost a subsidiary of the DOD, and yet you are not in a legal sense because you are privately owned. What we have here is the situation where you want to conduct your business like you are General Motors or any other major corporation in America, yet your lifeblood depends on DOD.

That is an interesting issue that we could probably spend the rest of the afternoon talking about, but it just seems to me like different rules should be applied. You are talking about all this billing of everything from country club memberships to private travel to the Government, and these kind of things would be perfectly permissible and probably normal, accepted corporate behavior if you were talking about General Motors; but the problem is that you are tied up directly with the DOD, and it is a different environment.

What we are scratching the surface on is just whether that is legitimate or not and what kind of corporate conduct we should expect from you folks running General Dynamics.

Having said all that, I want to move on to another point, and that is that in 1981 John Lehman, who is Secretary of the Navy, announced apparently—I think it was in July, I can't remember exactly when it was, I believe it was July—that General Dynamics was behind on schedule, it was overpriced, and he wouldn't give General Dynamics any more contracts or any more money, apparently. He sort of had a tirade, as it was reported in the press. He really ripped into you folks.

Shortly after that, I am informed that, you and Mr. Le Fevre met with Mr. Edwin Meese, who at that time was Presidential adviser, and then shortly after that meeting, apparently you and Mr. Lehman had a press conference to announce that you were going to continue doing business with the DOD, and apparently Mr. Lehman had changed his mind.

I would like to focus, if we could, on that——

Mr. LEWIS. I think you ought to get some of the statistics right first if we are going to focus on anything.

Mr. SLATTERY. OK. Well, let me just start right now and give you the opportunity to tell me about the meeting you had on August 7, 1981, with Mr. Meese. I would like to know what you told Mr. Meese and who was there and if you brought any documents to that meeting.

Mr. LEWIS. You have to go back two or three scathing denunciations before that. The first one was by Secretary Weinberger, I believe, within a week or so of his taking over that position in either late January or early February 1981, at which time he made a speech about how disappointed he was in the contract performance on the Trident submarine, which was very close to being delivered, which came as quite a shock to us, since we had never promised him, never even met him and never promised him anything, but he was disappointed.

He also made some remarks about the conditions up there are terrible. March 17th, St. Patrick's Day, Secretary Lehman announced that awards for three submarines which we had won fair and square on a competition as a low bidder were going to be given to Newport News for the purpose of maintaining the defense base, which is a good reason. He had to terminate the competition because the prices were higher, but he held a fourth of that year's appropriation, which was, of course, appropriated by the Congress for fiscal 1981, until GD so-called got their act back together. And if they did not, obviously, the other boat would go to Newport News, the only other builder.

This, in our judgment, was very unfair, and we know the reasons behind it, because of these so-called insurance claims, which we described in some detail in this document that we have put in the record.

I had no trouble meeting with Secretary Lehman. He had been available—the first meeting was at the time he announced to me that we were going to get clobbered on that contract. But I had not been able to see Mr. Weinberger, and I felt it was important that the Secretary of Defense know what the truth was with respect to one of his major weapons systems as we saw it.

I did talk to the Deputy Secretary Carlucci, and he could not get me an appointment. Our relations with the Navy really were horrible now by August, 4 months later, and we were coming to a major confrontation on this so-callled insurance claims issue which the Congress was outraged about. It is, apparently, quite legal and we were within our rights. I am confident the Navy and Defense Department were unhappy about it, and I felt it was important to get to see Secretary Weinberger.

Mr. Le Fevre arranged, through one of Mr. Meese's aids—I will think of his name in a moment—I hope you have it there—to get an audience, a short but brief meeting with Mr. Meese, and I believe, to the best of my knowledge, it was a 15-minute meeting.

We had a one-page position paper. I told Mr. Meese what I thought our side of the issue was and that we were not getting fair treatment by the Navy and the Defense Department; and then there were thousands and thousands of jobs at stake here and submarines were coming out and the quality was good, and we were doing far better than we had done before.

Mr. Meese's comment to that was, well, that sounds very impressive and very convincing; however, this was your side of the story and I will have to see what the Navy's side of the story is and then decide what to do. We thanked him and left. The three of us left his office, and as I say, I don't believe it was more than 15 minutes, and that is the one and only time that I have ever seen Mr. Meese. I still haven't had an appointment with Secretary Weinberger yet, which is kind of strange. As you pointed out, we are the largest defense contractor, but I have never yet had a meeting some years later.

Mr. SLATTERY. Well, if you could, what happened after that meeting, then? Obviously, your various relationship was continued, Mr. Lehman apparently changed his mind because you are still doing business with him.

Mr. LEWIS. No; I don't think he changed his mind at all. The Navy and the Secretary and the Defense Department and the Congress were deeply concerned about the so-called insurance issue, which I find hard to understand but which apparently is legally sound, that the Navy could be called upon to pay for correction of poor workmanship because they had not allowed contractors to buy what is called builder's risk insurance, which is common in the commercial business.

This was something the Navy had made a firm decision on. It was in the contracts that they are self-insuring.

We had told the Navy that we were planning to file significant numbers of claims, size, in dollars. We filed one in June, and the issue was joined about $19 million, as I remember, for the first boat involved. This was an area of great serious problem for the Navy because it opened up a Pandora's box for all shipbuilders, and the claims of shipbuilders are enormous.

Now, I think he wanted to settle, but he was not going to pay 1 red cent of insurance claim money. We had to get the situation back on the track.

In August, after there had been I don't know how many, but some meetings between Lehman and myself, in that meeting we finally decided we had to find some way of resolving this thing because there were other issues at stake. The No. 8 Trident had been appropriated and was being held up, which is bad for national defense. It is bad for employment. That is caught up in this issue. Our people are caught up.

So we agreed to try to find some solution and establish a standstill agreement. And we worked, then, from August to October just to reach a point of what can we do to get back together and make General Dynamics qualified to compete in the upcoming competitions, because he had said, accurately, I won't give you any business at all. If we can get the Trident unlocked and put into production and so on.

So, not 2 or 3 days later but 3 months later, we reached a joint agreement that we would try to work this thing out, using these various components in some way, and we gave ourselves 6 months to do it. That was the joint announcement. We just said, we are withdrawing our claim. Incidentally, the contracting officer totally disallowed the claim. They withdrew through their disallowance or denied it. We withdrew our claim and we stood back.

In January and February of the following year, we finally came to a conclusion.

Mr. SLATTERY. I thank you for that explanation, and I have to leave here in just a second, but before I do, Mr. Lewis, would you be kind enough to present this committee with a list of the political contributions that General Dynamics has made to both Presidential campaigns and Congressional campaigns since 1980? I'm talking about your political action committees.

Mr. LEWIS. Oh. I believe those are all on file. We will certainly get them, yes.

Mr. SLATTERY. I would appreciate it if you would.

Let me just close by saying I think that this also raises an interesting question about the fact that the taxpayers of this country are taxed to defend America and they willingly pay their taxes for that purpose. This money goes to the DOD, and the DOD in turn contracts with you folks to provide certain services and certain weapons, and you folks, in turn, hire people and probably have your political action committees set up.

Ninety-four percent of your money comes from DOD; I assume that 94 percent of your payroll is paid by DOD, and then you, in turn, raise money through your political action committee to be actively involved in the political races of this country.

I don't know that there is anything necessarily wrong with that. I would just like to know where the money goes and how directly or indirectly the Pentagon is involved in the political process in this country.

When I look at a corporation that depends 94 percent on the DOD, it would be interesting for the country to know where the political contributions of the PAC's of that corporation also go.

Mr. LEWIS. We would be glad to give it to you, and it has been very widely publicized and our lists have been printed and they are issued to our employees, it has been in the papers, and we follow the laws.

Mr. SLATTERY. I'm not suggesting that you haven't followed the laws.

Let me just close by saying, Mr. Lewis, you probably understand very clearly that I feel very strongly about some of the things that we have talked about here today, and I feel that you personally have an obligation to make sure that your shop is cleaned up over there at General Dynamics.

You know, we have gone through reams of information today about billings that were made to the Federal Government, the kind of things that are no longer politically defensible. Whether they are legally proper is probably another question, but they are certainly not politically defensible and, in my judgment, if continued will undermine the nation's political commitment to the defense of this country.

You, along with a lot of other corporate executives in this country that are doing a lot of business with the DOD, have a personal obligation in this area.

With that, I am going to excuse myself and go back to the Budget Committee.

Mr. LEWIS. Thank you. I agree with you, sir.

Mr. DINGELL. The Chair thanks the gentleman.

The Chair recognizes the gentleman from Oregon.

Mr. WYDEN. Thank you.

Mr. Lewis, it has been a long 4 hours and I am going to try and do this in just a few moments.

The subcommittee staff has determined that General Dynamics has billed the Government for over $1 million for personal flights by D.S. Lewis. These flights include trips to D.S. Lewis' personal residence in Georgia, as well as trips to attend board of directors' meetings for other corporations where Mr. Lewis is a member of the board of directors.

Subcommittee staff believes many more personal flights might exist, but since GD has been unwilling to disclose passenger lists, we have been unable to determine the extent of the overall abuse.

Now, you cited in your opening statement a great concern about terrorism, that terrorism was one of the reasons that you flew in the way that you did. Well, I am having a great deal of difficulty in understanding why terrorists seem to operate only over certain air routes: for example, St. Louis and Albany, GA.

We find, apparently, that you don't think there are any terrorists between St. Louis and Honolulu. We know this because we know that you and Mrs. Lewis flew to Honolulu on United Airlines, flight 191, on February 6, 1983 at Government expense, and you flew——

Mr. **Lewis**. That is incorrect.

Mr. **Wyden**. We have a voucher——

Mr. **Lewis**. I understand. I checked that one. As I understand it, that voucher has not been filed. I shouldn't say it is incorrect, but it is my understanding. I don't know.

Mr. **Wyden**. We know that it was charged to a Government account.

Mr. **Dingell**. What is the account that it is charged to?

Mr. **Lewis**. I have been advised that it was not charged to a Government account, Mr. Wyden. I have not seen the charge or anything, but I have been advised of that.

Mr. **Dingell**. Isn't this charged to the reimbursable travel account at General Dynamics?

Mr. **Lewis**. The travel account of General Dynamics. I don't believe there is such a thing. I believe the travel vouchers go into various accounts. Is that correct?

Mr. **MacDonald**. That's correct.

Mr. **Lewis**. That those billings go——

Mr. **Dingell**. Was claim for payment for this particular flight withdrawn?

Mr. **Wyden**. After we informed you of the matter.

Mr. **Lewis**. I don't know sir. I cannot answer. I asked the question of our people, was that billed to the taxpayers, and it certainly should not have been, and I was told that it was not. Not to the taxpayers, to the Government contracts.

Mr. **Dingell**. Without objection, the documents relative to this, including the letter on the matter, will be inserted into the record.

[Testimony resumes on p. 350.]

[The documents referred to follow:]

NINETY-EIGHTH CONGRESS

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CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

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PHONE (202) 225-4441

October 5, 1984

The Honorable John Lehman
Secretary of the Navy
Department of the Navy
The Pentagon
Washington, D. C. 20350

Dear Secretary Lehman:

On July 25, 1984, I advised you that the Subcommittee on Oversight and Investigations had been conducting an investigation into various allegations made by P. Takis Veliotis, former Executive Vice President and Member of the Board of Directors of the General Dynamics Corporation. This investigation has been broadened to include matters pertaining to the use of corporate aircraft by General Dynamics.

Subcommittee staff has found that top General Dynamics officials each year have been charging millions of dollars to the Federal Government for personal trips on their corporate jets to various destinations around the country that do not relate to Government business. For example, David Lewis, Chairman of the Board, in 1982 alone took 14 trips on the corporate jets based in St. Louis to his farm in Albany, Georgia. This is not necessarily the total of Mr. Lewis' trips; the staff is in the process of auditing the use of eight other corporate jets. The staff also found that pilot reports of several of Mr. Lewis' trips to Albany were deliberately altered after the pilot signed them to make it appear that the flights were training flights which perhaps could be more legitimately charged to the Government. Since the mid-1970's, the Defense Contract Audit Agency (DCAA) has repeatedly requested General Dynamics to retain the list of passengers on these flights so it could determine whether they involve Government business. In the face of these requests, General Dynamics continued to destroy passenger lists immediately after the flights and continued to charge these flights to the Government. It is not clear why the Navy has not brought fraud charges against General Dynamics for knowingly charging millions of dollars to the Government for numerous flights which have nothing at all to do with Government business.

It is exceedingly disturbing that the nation's largest defense contractor apparently sees nothing wrong with misusing the taxpayers' money in such a blatant fashion. Such abuses must not be allowed to continue. Accordingly, the Subcommittee requests that the Navy promptly initiate a full-scale investigation of this apparent fraud against the Government. The Subcommittee staff will make available for review by Navy investigators documents that may assist them in the investigation. The Subcommittee would also like to be kept apprised as to the progress of the Navy's investigation.

Directly related to the apparent misuse of corporate aircraft is the Subcommittee's understanding that General Dynamics, since 1978, has charged the Government for approximately $22 million, including taxes, to operate its corporate air fleet. The Subcommittee further understands that approximately $10.5 million of this amount has already been received by General Dynamics, notwithstanding the fact that these charges have been questioned by the DCAA and by Government contracting officers. This is most disturbing. It is not readily apparent why the Government should pay a corporation anything when there is a question as to the propriety of the charges being made. I would appreciate being advised as to how this could occur. In the meantime, the Subcommittee believes the Navy should immediately consider whether to disallow the approximately $22 million in corporate aircraft charges that have been submitted by General Dynamics.

Michael Barrett, Chief Counsel and Staff Director, and Peter Stockton of the Subcommittee staff are available to assist the Navy in this matter. They can be reached at 225-4441.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD:PSdb

General Dynamics Corporation
Corporate Aircraft Utilization Issue

I. History of corporate aircraft issue SUBCOMMITTEE STAFF MEMORANDUM

a. Background

When the corporate office was moved from New York to St. Louis in 1971, it became evident to General Dynamics (GD) that an executive jet could be used to advantage. Thus, the first of its corporate headquarters' aircraft was acquired. At that time the Fort Worth Division was operating two 40 series Sabreliner jets in the performance of the F-111 airplane program. With that program winding down, one aircraft was transferred to the corporate headquarters office. The necessity and use of this aircraft was justified by the corporate office to the Government Tri-Service negotiator in the settlement of the 1971 corporate office G&A expenses.

Progressively, GD increased its aircraft fleet, both in numbers and in long-range flight capabilities so that, as of December 1984, it was operating a fleet of 12 aircraft, 5 of which were owned and 7 were leased.

Following is a listing of all company operated aircraft and their locations:

Corporate Headquarters Office - St. Louis, Missouri - Spirit of St. Louis Airport

Type	Registration number	Passenger seating capacity	Owned/ leased
Jet - Gulfstream III	N862G	12	owned
Jet - Citation III	N889G	8	owned
Jet - Sabreliner 80A	N2440G	7	owned

Fort Worth Division, Fort Worth, Texas - Carswell Air Force Base

Type	Registration number	Passenger seating capacity	Owned/ leased
Jet - Sabreliner 60	N1116A	6	owned

Convair Division, San Diego, California - Lindbergh Field

Type	Registration number	Passenger seating capacity	Owned/ leased
Jet - Gulfstream II	N662G	11	owned
TBP - Merlin IVC	N234SA	15	leased
TBP - Kingair 200	N424BS	TESTBED	leased
TBP - Kingair 200	N23807	9	leased

Pomona Divison, Pomona, California - Ontario Airport

Type	Registration number	Passenger seating capacity	Owned/ leased
Jet - Lear 35	N[illegible]37WC	7	leased
TBP - Kingair 200	N18379	8	leased

Type	Registration number	Passenger seating capacity	Owned/ leased
Land Systems Division, Troy, Michigan - Pontiac Airport			
TBP - Kingair 200	N3859U	8	leased
Electric Boat Division, Groton, Connecticut - Groton-New London Airport			
TBP - Kingair 200	N200AB	8	leased

b. GD's justification for corporate aircraft

1. Increased flexibility in scheduling, resulting in time savings and a more effective utilization of the contractor's executive personnel. The aircraft are utilized by GD's senior executive personnel for transportation to GD's operating divisions and offices throughout the United States and the free world.

2. The Sabreliner and the Gulfstream aircraft are designed with an enroute work area which allows not only for independent work but also for group conferences.

3. Last minute high-level meetings are scheduled by DOD officials in program negotiations and settlement.

4. Scheduled commercial airline service is not available to many GD work sites.

5. Use of company aircraft permits discussion of industrial proprietary data and military classified information.

6. Use of company airplanes helps to minimize terrorist threats through flexibility of scheduling not permitted by commercial airline travel.

c. Company policy on passengers

Once a flight has been approved, then other company personnel having a business need to fly to the same or near destination are also placed aboard on a space available basis.

Until March 23, 1984, GD's flight records did not identify passengers by name (other than the principal passenger). Previous to this time, passenger manifests were prepared but were destroyed after the flight was completed. GD's reasoning for this is that the listing of names is not required by Defense Acquisition Regulations. However, in an agreement with the Navy's Corporate Administrative Contracting Officer (ACO) for GD on March 23, 1984, GD agreed to provide names of all passengers on all flights, which are charged to Government contracts, subsequent to that date. Although GD presently lists names of all passengers, it still lists many purposes of the corporate flights only as being COMPANY PRIVATE.

II. The Navy ACO allowed GD $1,967,575 of $2,702,170 corporate aircraft expenses questioned by DCAA for the years 1976-77. The ACO at the time; Dennis E. Modesitt (now retired) worked out of Crystal City, Arlington, Virginia. His supervisor, John Ford, still works for the Navy in Crystal City.

The last year GD's aircraft overhead account was settled was 1977. The corporate aircraft issue (mainly, General Dynamics' refusal to identify passengers and provide purposes of some flights) precluded the settlement of this account since that time.

We were told one reason Mr. Modessit probably settled with GD, (allowing it 72.8 percent of aircraft expenses questioned by DCAA) was that he wanted to retire and this was one of the matters he wanted to clear up before leaving. Apparently, he was not too demanding that GD provide more support for its aircraft flight claims.

The relationship between the ACO and DCAA can generally be described as one in which the ACO is responsible for settling contract claims based upon audit reports received from the DCAA which either support or question the contractor's claims. The ACO ostensibly relies upon these reports to support his positions in his dealings with the contractor.

III. Highlights of Subcommittee on Oversight and Investigations findings regarding corporate aircraft utilization

--Only two GD sites were reviewed:

Convair Division-San Diego, California

The 2 turbo-prop aircraft appear to be justified in that GD's explanations are reasonable. These aircraft are used on short-range flights in Southern California to remote sites, such as Point Mugu, Vanderberg Air Force

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Base, Edwards Air Force Base, and San Clemente Island, for the purpose of conducting missile tests and other corporate business.

Concerning the use of the Gulfstream jet aircraft, some of the questionable flights noted were as follows:

August 13, 1981--Mr. and Mrs. David S. Lewis, sole passengers on a flight from Albany, Georgia to Eagle, Colorado.

October 7-10, 1981--Dr. L. Buchanan (former General Manager, Convair Division) flew from San Diego to Denison, Iowa, thence to Ottumwa, Iowa and San Diego with 6 unidentified passengers. The purpose of the trip was not shown. We determined the flight was for Buchanan family members to attend a relative's funeral.

January 17, 1982--San Diego to Las Vegas. A foreign general was the principal passenger. Five other unidentified passengers were on board. Purpose of trip was not shown.

January 17-18, 1982--Mr. and Mrs Lester Crown, with one other passenger--flight from Los Angeles to Chicago was identified as Company Private. (Note: The Crown family owns a significant amount of GD stock. Henry and Lester Crown are members of GD's Board of Directors).

August 30-31, 1983--Convair's jet flew empty from San Diego to Chicago to pick up members of the Crown family, bring them to St. Louis, and then take Mr. and Mrs. Henry Crown to Los Angeles. Purpose of trips--not shown. Cost of trip, $11,976.60

September 9, 1983--Convair's jet flew from Fort Worth to Washington, D.C., thence to San Diego with a General Dynamics' Washington office representative and 6 unidentified guests. Purpose of trip--not shown.

October 6, 1983--Convair's jet flew from Pontiac, Michigan to Los Angeles with passengers Henry Crown and guest. Cost of trip, $13,217.80, was charged to Corporate Headquarters. Purpose of trip--not shown.

November 1-6, 1983--San Diego to Fort Worth
Fort Worth to John's Island, South Carolina
John's Island to St. Louis
St. Louis to John's Island
John's Island to Fort Worth
Fort Worth to San Diego

Several General Dynamics officials and guests participated in these flights. The purpose of the 5-day meeting at John's Island was indicated to be a "Performance Review".

January 19-21, 1984--San Diego to Chicago to pick up members of the Crown family and guests. Then the flight continued from Chicago to New Orleans for purposes of their attending a "Towboat Dedication" ceremony. The return flights were New Orleans to Chicago and Chicago to San Diego. The cost of the trip was $18,721.74.

March 2-5, 1984--Sammy Davis, Jr.--Monte Hall and guests trip from Lake Tahoe to St. Louis and return to Las Vegas--to participate in a charity telethon in St. Louis. The cost of the trips was $17,577.40.

May 18-19, 1984--Chicago to St. Louis
St. Louis to Chicago
Chicago to Teterboro, NJ
Teterboro to Syracuse
Syracuse to Philadelphia
Philadelphia to Chicago
Chicago to San Diego (empty)

The purpose of the flights was to support the Crown family and guests who participated in a Cornerstone Ceremony at Syracuse University. The cost of the trips, $23,319.60, was charged to Corporate Headquarters.

August 31, 1984--J.E. McSweeny (General Manager-Convair) and guest, trip from San Diego to Omaha and return for Change of Command Ceremony. Cost was approximately $9,200 for 2 passengers for a 6-hour trip.

February 23, 1984--Los Angeles to New York portion of trip. Congressman J. Addabo was a passenger on this flight.

Corporate Headquarters, St. Louis, Missouri

a. We summarized all the flights taken by David S. Lewis, Chairman of the Board and Chief Executive Officer of General Dynamics, on corporate aircraft to and from Albany, Georgia from 1981 through August 31, 1984. (Note--Mr. Lewis has a residence on his farm in Albany.) The results of our summary follow:

General Dynamics Corporation Aircraft Flights to and from Albany, Georgia

Year	Number of flights		Cost		
	Taken	Conceded	Gross	Conceded	Net
1981	32	2	$ 82,033	$ 3,528	$ 78,505
1982	28	2	117,197	6,289	110,908
1983	30	10	166,324	35,834	130,490
Total	90	14	$365,554	$45,651	$319,903

b. David S. Lewis is a member of the board of directors of four corporations other than General Dynamics. They are:

BankAmerica Corporation, San Francisco, CA
Cessna Aircraft Company, Wichita, KS
Mead Corporation, Dayton, OH
Ralston Purina Company, St. Louis, MO

We analyzed the flight records and noted that Mr. Lewis took the following flights on GD aircraft to go to and/or depart from outside board meetings in various cities.

Year	No. of flights
1981	25
1982	18
1983	21

Mr. Lewis to the best of our knowledge, does not receive reimbursement for travel expenses from these outside corporations. We referred this question to the Naval Investigative Service for their information and possible review.

Mr. Lewis, in an interview conducted November 7, 1984, indicated that General Dynamics assumes the costs of these trips because his participation in these meetings benefits the corporation.

c. Mr. Lewis, and other GD executives, took the following trips in corporate aircraft to/from St. Simons Island, Georgia:

Year	St. Simons Island	
	To	From
1981	6	6
1982	9	8

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We have not established why Mr. Lewis flew to St. Simons Island, a resort area. Some of the purposes of the flights were listed as being:
  Board meeting
  Drop passengers after quarterly review meeting
  Company private

d. Some 1982 aircraft flight logs were altered to show flights to and from Albany, Georgia as being 'Training (T)' flights. The pilot, when questioned, denied making such changes, indicating that he had designated them as being 'Executive (E)' flights. This matter was referred to the Naval Investigative Service.

e. Our examination of corporate aircraft trip records indicated that Mr. Lewis, and members of the Crown family, at times, took flights to and from resort areas, such as Aspen, Colorado, Augusta, Georgia, and Greenbrier, West Virginia.

Although most of these costs are conceded by General Dynamics to be unallowable, we questioned whether they are considered to be benefits received by General Dynamics' officers insofar as the SEC is concerned. All individual benefits over $25,000 per year must be disclosed to all stockholders, according to our understanding of SEC requirements. General Dynamics refuses to respond to our request for its analyses of benefits received by corporate executives for the years 1981 through 1983.

f. Mr. David S. Lewis, in a November 7, 1984 interview, stated that the terrorist threat was one of the principal reasons he uses corporate aircraft. He contends his use of corporate aircraft is made with the knowledge and approval of the Board of Directors and that other corporations adhere to this practice.

Note-We have evidence, heretofore undisclosed, that Mr. Lewis did, in fact, take many flights on commercial aircraft which seems to refute his argument that he cannot expose himself to the dangers of commercial flights. Details are included in Attachment A.

g. During the period 1978 through 1983, DCAA has questioned $20.5 million of corporate aircraft expenses (excluding taxes). Certain disallowance factors have been negotiated at the GD divisions which represent the anticipated final negotiated corporate expense disallowance. Considering the mix of Government and commercial business at each of the divisions and the types of contracts involved, the ACO estimates that for the period 1978 through 1983, approximately $10.5 million was held by General Dynamics in August 1984 that would be refunded to the Government on flexibly priced contracts if the DCAA position on corporate aircraft should be fully sustained in negotiations.

January 9, 1985
Date

John Ziombra
John Ziombra
Staff Member
Subcommittee on Oversight
and Investigations

David S. Lewis
Commercial Airline Flights
December 1981 to October 1983

et No.	Class	Carrier	Date	From	To	Charged to
325195	F	TWA	12/04/81	St. Louis	Los Angeles	Company
	F	Western	12/06/81	Los Angeles	San Francisco	
	F	TWA	12/08/81	San Francisco	St. Louis	
751644	Y	Delta	12/20/81	St. Louis	Atlanta	Personal
	Y	Republic	12/20/81	Atlanta	Albany, GA	
	Y	Republic	Open	Albany	Atlanta	
	Y	Delta	Open	Atlanta	St. Louis	
752115	Y	TWA	01/22/82	St. Louis	W. Palm Beach	Personal
	Y	TWA	01/25/82	W. Palm Beach	St. Louis	
811279	Y	Republic	02/01/82	Albany, GA	Atlanta	Personal
	Y	Delta	02/01/82	Atlanta	St. Louis	
811641	Y	Republic	02/20/62	Albany, GA	Atlanta	Company
	Y	Delta	02/20/82	Atlanta	St. Louis	
748069	Y	Eastern	05/28/82	St. Louis	Atlanta	Personal
	Y	Republic	05/28/82	Atlanta	Albany, GA	
	Y	Republic	05/31/82	Albany	Atlanta	
	Y	Eastern	05/31/82	Atlanta	St. Louis	
748008	B	USAir	06/18/82	St. Louis	Pittsburgh	Personal
	Y	Wright	06/18/82	Pittsburgh	Bluefield/ Princeton, WV	
	B	TWA	06/20/82	Pittsburgh	St. Louis	
748969	F	TWA	07/15/82	St. Louis	Los Angeles	Company
	V	United	07/16/82	Los Angeles	San Francisco	
	F	TWA	07/18/82	San Francisco	St. Louis	
082314	Q	Ozark	09/03/82	St. Louis	Denver	Personal
083341	Y	Eastern	11/21/82	St. Louis	Atlanta	Personal
	Y	Republic	11/21/82	Atlanta	Albany, GA	
	Y	Republic	Open	Albany	Atlanta	
	Y	Eastern	Open	Atlanta	St. Louis	
095089	F	TWA	12/05/82	St. Louis	San Francisco	Personal
	F	United	12/07/82	San Francisco	Washington/Dulles	

David S. Lewis
Commercial Airline Flights
December 1981 to October 1983

et No.	Class	Carrier	Date	From	To	Charged to
095100	Y	Ozark	12/09/82	Washington/Nat	St. Louis	Company
095054	B	Eastern	12/23/82	St. Louis	Atlanta	Personal
	B	Republic	12/23/82	Atlanta	Albany, GA	
	B	Ozark	01/02/83	Atlanta	St. Louis	
7379409	F	TWA	02/05/83	St. Louis	Los Angeles	Company
	F	United	02/06/83	Los Angeles	Honolulu	
	F	United	02/13/83	Honolulu	Los Angeles	
	F	TWA	02/14/83	Los Angeles	St. Louis	
542502	M	TWA	09/02/83	St. Louis	Denver	Personal
52941852	F	TWA	09/06/83	Denver	St. Louis	Personal
542643	Y	Ozark	09/30/83	St. Louis	Nashville	Personal
828531	M	TWA	10/02/83	Nashville	St. Louis	Personal

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General Dynamics Corp.

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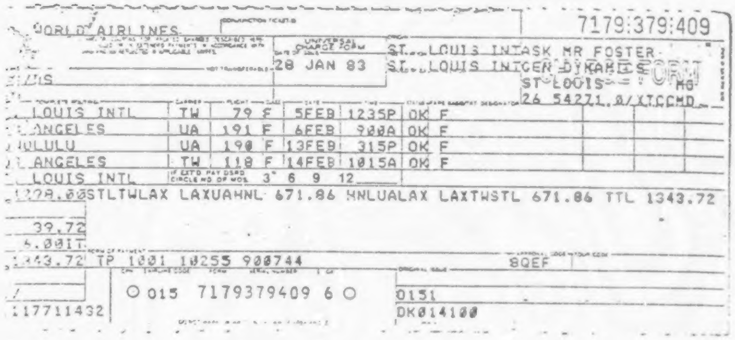
TICKET FOR DAVID S. LEWIS FOR TRIP TO HAWAII



WORLD AIRLINES

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UNIVERSAL CHARGE FORM

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LEWIS

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ANGELES	TW	118	F	14FEB	1015A	OK	F
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ALSO MRS. LEWIS – TICKET FOR SAME TRIP FOR $1343.72, CHARGED TO THE GOVT.

GENERAL DYNAMICS
Pierre Laclede Center St. Louis, Missouri 63105

19 March 1979

Headquarters, Naval Material Command
Attention: Mr. Paul J. Webb
Corporate Administrative Contracting Officer
Room 632, Crystal Plaza #5
NAVMAT 08CD
Washington, D.C. 20360

Subject: Corporate Aircraft

We note that in its audit report on 1976 and 1977 General Dynamics corporate office overhead the DCAA has questioned certain corporate airplane expense on the basis that "the contractor has not demonstrated the necessity of the company owned aircraft to the Contracting Officer as required by ASPR 15-205.48(g)." The purpose of this letter is to outline the history and continuity of the various corporate aircraft for which costs have been charged to corporate G&A, up to and including the current corporate aircraft and to provide the demonstration of need. We also will outline the nature of the use to which the aircraft are put and the controls existing on its use.

When the corporate office was moved from New York to St. Louis in 1971 it became evident that an executive jet could be used to advantage and the first of the current series of corporate aircraft was then acquired. At that time the Fort Worth Divisio was operating two 40 series Sabreliner jets in the performance of the F-111 airplane program. With that program winding down, review indicated that one of the airplanes could be transferred to the corporate office without detriment to the program. The corporate office acquired that airplane and justified its necessity and use to the Government Tri-Service negotiator in the settlement of our 1971 corporate office G&A expense.

In late 1972 arrangements were made to exchange a 40 series Sabreliner for credit against the acquisition of a new 75 series Sabreliner which afforded longer range as well as other advanta The arrangements for acquisition of the new 75 series provided for the furnishing of a 60 series Sabreliner for interim use by General Dynamics until the 75 series was delivered in May 1974. That airplane was used until the early 1977 delivery of an improved version of the 75 series. Due to the significant need for the corporate office to have an international flight capability we also acquired a 12 passenger Gulfstream II in this time frame. These two aircraft are still owned and extensively utilized.

As noted above, the acquisition and use of the first corporate Sabreliner was demonstrated in accordance with the requirements of ASPR 15-205.46(g) in the settlement of the 1971 corporate office overhead. We are attaching for your information copies of three memoranda dated in 1971 and 1972 and signed by the then Assistant to the Chairman of the Board of Directors of General Dynamics. These letters stated the rationale supporting the acquisition of and need for the aircraft. Excepting the acquisition of the Gulfstream II in 1977, all aircraft acquisitions represented updates of the original 40 series Sabreliner transferred from the Fort Worth division in 1971. Moreover, the 60 and 75 series were acquired during a period when the contractor was CWAS qualified.

The Gulfstream II acquisition was necessitated not only by our vast expansion of international activities but also by the need for an additional aircraft to provide executive transportation domestically for a significantly increased overall level of activity. The Gulfstream II provided an international flight capability not available with the Sabreliner.

Corporate management, including the Board of Directors, as demonstrated by their review and approval of the Sabreliner and the Gulfstream II acquisitions, believe that the aircraft are necessary for the conduct of our business and that the cost impact, if any, in comparison with alternative means of transportation, is commensurate with the advantages gained through their acquisition and use. Factors involved in demonstrating the need for the aircraft include, but are not limited to, the following:

1. A significant factor is the increased flexibility in scheduling. This results in time savings and a more effective utilization of the contractor's executive personnel. The aircra are utilized by our senior executive personnel for transportation to our operating divisions and offices throughout the U.S. and the free world. General Dynamics' operations include the following locations:

   a. Fort Worth, Texas
   b. Camden, Arkansas
   c. San Diego, California
   d. Pomona/Ontario, California
   e. Groton/New London, Conn.
   f. Quincy/Boston, Mass.

g. Bedford Mines, Canada
h. Charleston, South Carolina
i. Tampa, Florida
j. Washington, D.C.
k. Orlando, Florida
l. Chicago, Illinois
m. London, England
n. Montreal, Canada
o. St. Louis, Missouri
p. Avenel, New Jersey
q. Quonset Point, Rhode Island
r. Brussels, Belgium
s. Tokyo, Japan
t. Canberra, Australia
u. Athens, Greece

Additionally, we have major contract involvements with the governments of seven countries and minor contractual activity with a number of other foreign countries and with many others involved in our marketing plans which require the attention of senior level executives. It would be unrealistic to believe that an organization of the size, complexity and diversification of General Dynamics could expect to perform its obligations for its extensive array of customers, including the U.S. Government, and to its stockholders with a small cadre of senior level executives relying solely on commercial transportation in today's environment of adverse and spontaneous labor actions and complicated further by a need for security measures to offset the threat of terrorist activities.

The time savings afforded our executives are inestimable. Both the Sabreliner and the Gulfstream II are designed with an en route work area which allows not only for independent work but also for group conferences. Significant and private business is conducted during these flights which otherwise would have to be scheduled to consume valuable on location time or have to be deferred indefinitely due to time constraints, if we were limited solely to the use of commercial aircraft. In fact it can be said that when a top level executive loses an hour through a commercial flight schedule or en route to distant commercial airport it is an hour that is irreplaceable at any cost. While this is true of any individual, it is especially critical with top level executives whose productive value to the corporation must be construed as many times their cost in terms of compensation.

2. Critical and emergency situations which cannot be accommodated as effectively by commercial airlines arise quite often in the contractor's operations. For example, on a number of occasions in the past year last minute high level meetings were

scheduled by Department of Defense officials in connection with the 688 class submarine program negotiations and settlement. Neither time nor scheduling would have permitted our senior executives to have prepared for and attended these meetings using commercial airlines. Yet these meetings were of the utmost important to the Department of Defense, the well being of thousands of employees and the contractor.

3. Scheduled commercial airline service is available to all the areas listed above. However, in many cases service is not available without loss of significant time when commercial airlines are used. For example, visits using commercial flights to two of our largest divisions, Fort Worth and Electric Boat, normally involve a loss of several hours for personnel using commercial as compared to company transportation.

4. As one of the top defense contractors, our business operations involve not only industrial secrets, but also military security information ranging from confidential through top secret. Use of the company airplanes permits discussions of industrial proprietary data and military classified information to an extent not possible on commercial airlines. Additionally, an important factor in today's business world is the increasing terrorist threat. As one of the top defense contractors, as well as one of the "Fortune" 100 corporations, General Dynamics' senior corporate executives cannot be discounted as prime candidates for terrorist activities. The use of company airplanes for some of the transportation helps to minimize this exposure through flexibility of scheduling not permitted by commercial airline travel.

We believe it is evident from the above that the use of the two aircraft are necessary for the proper conduct of the contractor's business and that the advantages gained from their use more than offset their cost of acquisition and operation. Therefore any attempt to even realistically reflect the comparative cost of commercial air fare would be superfluous. Moreover, the DCAA questioning of cost on the basis of a simple comparison of cost with fares represents a highly improper interpretation of ASPR (DAR) 15-205.46(g).

ASPR does not in any way require that the allowability of company aircraft cost be based on "equivalent commercial transportation cost." ASPR does require that cost increase, if any, over alternative means of transportation be commensurate with the advantages gained. This, we have demonstrated to the full extent of the cost of acquisition and operation.

If the DCAA interpretation of the ASPR were to be accepted, then all executive aircraft transportation cost allowability would have to be limited to"equivalent commercial transportation cost." An executive aircraft, privately owned and operated to obtain more effective utilization of executive's time could never compete with fares of commercial airlines operated on a scheduled basis to serve high density markets any more than the acquisition and use of Air Force One, to sister airplanes and helicopters used by the President of the United States can be justified on a comparative commercial fare basis. Nor can the DC-9, Sabreliner and other airplanes used by the DoD and other agency officials and commanders be justified on such a basis. If the ASPR drafters had intended to limit the allowability of cost to "equivalent commercial transportation cost" they would have said so.

The auditor's statement that cost charged to Government cost type and flexibly priced contracts of eight major aerospace contractors were limited to equivalent commercial costs cannot be validated.

The reasonableness of the contractor's acquisition and operation of business executive aircraft is found in the ASPR tests of whether the cost is of a type generally recognized as ordinary and necessary for the conduct of the contractor's business, the restraints or requirements imposed by generally accepted sound business practices, and the action that a prudent business man would take considering his responsibilities to owners, employees, customers, and the Government. In each case these tests are met, not only as evidenced by the demonstration of need and use noted above, but also by the fact that literally hundreds of major corporations operating in both the commercial and the Government marketplace own and operate executive aircraft. For example, one of the top commercial U.S. companies, General Motors Corporation, has been reported by the press to employ about 40 pilots, to operate some 20 airplanes.

Control over flight of the aircraft is exercised personally by the Chairman of the Board of General Dynamics except in his absence when control over use is delegated to a Corporate Executive Vice President. This control assures that the airplanes are used to the best overall interests of the company. Certainly no better control could exist.

Once a flight has been approved, then other company personnel having a business need to fly to the same or near destination are also placed aboard on a space available basis, security and other considerations permitting.

The existence of contracts at several major divisions which extend well into the 1980's as well as projections of new and follow on business, clearly indicate a continued high level of domestic and foreign activity which would warrant retention and operation of the aircraft through their service lives.

We respectfully request your concurrence that the need for the contractor's Sabreliner and Gulfstream II aircraft have been amply demonstrated in accordance with ASPR 15-205.46(g).

Very truly yours,

W. R. Craig

I concur

Paul J. Webb, Corporate Administrative Contracting Officer

DEFENSE CONTRACT AUDIT AGENCY
CHICAGO REGION
ST. LOUIS BRANCH OFFICE
210 NORTH 12TH STREET, ROOM 1148
ST. LOUIS, MISSOURI 63101

IN REPLY REFER TO
3201 - 9A159001

29 June 1979

MEMORANDUM FOR CORPORATE ADMINISTRATIVE CONTRACTING OFFICER
GENERAL DYNAMICS CORPORATION, HEADQUARTERS,
NAVAL MATERIAL COMMAND, WASHINGTON, D. C. 20360

ATTN: Mr. Paul J. Webb

SUBJECT: Justification of Corporate Aircraft

Pursuant to your telecon request on 5 May 1979, we have reviewed the comments in Mr. Ray Crain's letter of 19 March 1979, submitted to the Corporate Administrative Contracting Officer, to demonstrate the need for company owned aircraft as required under the provisions of DAR 15-205.46(g).

It is our opinion that the contractor has attempted to justify the need for company aircraft on the basis of convenience rather than the rule of necessity as required by DAR 15-205.46(g)(i).

Our specific comments on the contractor's submission are as follows:

The contractor's letter states in paragraph 2, page 2:

> "The acquisition and use of the first corporate Sabreliner was demonstrated in accordance with the requirements of ASPR 15-205.46(g) in the settlement of 1971 corporate office overhead."

We reviewed Mr. J. H. Lynskey's, HQ, AFSC/PMLO, memorandum of negotiation of 11 March 1975 which contains the following comments relative to the above:

"DCAA compared the cost of the company owned

> Sabreliner aircraft to commercial flight costs. The review showed that company cost exceeded equivalent costs by $98,397. DCAA questioned the excess cost of $98,397 in accordance with ASPR 15-205.46(g) on the basis of reasonableness as the contractor was unable to demonstrate that the excess cost is commensurate with the advantages gained. The contractor argued that since practically all major companies have executive aircraft; how could General Dynamics' decision to have aircraft be questioned under reasonableness. The decision made by a prudent person under a competitive business environment and therefore reasonable under ASPR 15-201.3. The contractor also stated that it supported its decision when the aircraft was purchased. While the negotiator disagreed with the contractor, it would be extremely hard to support a disallowance based upon an after-the-fact determination of reasonableness. The negotiator, therefore, took a token disallowance of about 23% or $22,428 and reinstated the balance."

It is our opinion that the above documentation clearly shows that there has been no justification submitted to date under the provisions of DAR 15-205.46(g).

During calendar year 1976, the contractor operated a single aircraft, the Sabreliner which flew a total of 664 flight hours. In calendar year 1977, the contractor operated two aircraft, the Sabreliner for a total of 518 flight hours and the Gulfstream II, for a total of 414 flight hours.

The contractor attempted to justify the acquisition of the Gulfstream II on the basis of its capability for international flights. The contractor did not mention that this acquisition was not necessary because the G.D. Corporation, Ft. Worth Division operates a Convair 880 with weekly schedules to Europe.

3201-9A159001
Subject: Justification of Corporate Aircraft

The contractor correctly identified the various locations for the G.D. operations and admits that all are served by commercial airlines. The justification is based on convenience. The reasons of convenience cited by the contractor were increased flexibility of scheduling, reserved use for senior executives, and time savings.

We feel that the contractor has been less than candid relative to the time savings factor in that the contractor has an in house on line Commercial Airline terminal for flight scheduling and operates its own fleet of chauffeured limousines.

The contractor also cites the potential hazard of terrorist activity because G.D. is one of the "Fortune" top 100 corporations. We know of no such activities to date.

The contractor further attempted to justify the use of the corporate aircraft on the basis that Air Force One and sister airplanes and helicopters used by the President of the United States do not compete with commercial fares. We do not feel that the above comparison is pertinent in that the aircraft used by the President serve as communication centers in the event of a national emergency and history clearly shows the requirement for extraordinary means to protect the life of the President.

We are of the opinion that the contractor has not satisfied the requirements of DAR 15-205.46(g) in that:

(i) scheduled air line service is available at reasonable times with reasonable frequency to destinations required by the contractor,

(ii) occasional critical or emergency situations could be served by chartered aircraft,

(iii) The increased scheduling and flexibility in scheduling is offset by two in house terminals for direct communications to the scheduling network for all major airlines, and the availability of the contractor's chauffeured limousines for rapid transportation to and from the airport, and

(iv) There is no requirement for use of corporate executive aircraft for flight testing.

In conclusion it is our opinion that the sheer magnitude of the dollar difference between commercial airfare and the cost of corporate aircraft operation negates the contractor's attempt to justify the use of corporate aircraft. A recapitulation of the difference is as follows:

Year	Cost of Allowable Flights	Cost of Equivalent Commercial Fares
1976	$ 821,578	$95,057
1977	$1,906,632	$250,444

In addition to increased cost of operating company owned aircraft over equivalent cost of traveling on commercial airlines, the contractor's company owned aircraft consumed over 194,000 gallons of fuel in CY 1976 and 389,000 gallons of fuel in CY 1977. It is obvious from the above that any reduction in the use of company owned aircraft would have a favorable impact on the energy shortage.

If further information is required relative to the above please contract the General Dynamics CAC at Area Code 314-862-2440 station 160.

B. L. NITTLER
Branch Manager

DEPARTMENT OF THE NAVY
HEADQUARTERS NAVAL MATERIAL COMMAND
CORPORATE ACO, GENERAL DYNAMICS CORPORATION
PIERRE LACLEDE CENTER, ROOM 938
ST. LOUIS, MISSOURI 63105

28 August 1984

From: Corporate ACO, General Dynamics Corp., St. Louis, MO
To: U.S. House of Representatives, Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce (Attn: Arthur W. Brouk)

Subj: Subcommittee Investigation of General Dynamics Corporation

1. Pursuant to your request of 17 August 1984, I have calculated the amount of dollars relative to General Dynamics Corporate Aircraft expenses that DCAA has questioned, but is currently being held by the contractor. More specifically, during the period 1978 through 1983, DCAA has questioned $20.5m of Corporate Aircraft expenses (excluding taxes). Certain disallowance factors have been negotiated at the General Dynamics Divisions which represent the anticipated final negotiated corporate expense disallowance. By comparing the amount of total cost disallowed during the 1977 Corporate Office negotiated settlement with the amount of that disallowance attributable to the Corporate Aircraft, it is estimated that approximately 35% of the total cost disallowed was attributable to the Corporate Aircraft issue. Considering the mix of Government and Commercial business at each of the Divisions and the type of contracts involved, it is estimated that for the period 1978 through 1983, approximately $10.5m is currently being held by General Dynamics Corporation that would be refunded to the Government on flexibly priced contracts if the DCAA position on Corporate Aircraft should be fully sustained in negotiations.

2. It should be noted that for the 1978 Corporate Home Office negotiations, only the Corporate Aircraft issue remains open and that a draft Contracting Officer's final decision on this issue was forwarded to Navy Legal representatives for their review in June 1984. Once the Contracting Officer's final decision is approved and issued, the $10.5m currently being held by General Dynamics can be fully recovered by the Government under CAS 405.40 (b).

3. Because the above listed amounts are considered business sensitive by General Dynamics, it is requested they not be released to personnel outside of the Federal Government.

Walter R. Yeoman

WALTER R. YEOMAN
Corporate Administrative
Contracting Officer

CF:
HQ NAVMAT (MAT-023, Mr. Kallmeyer)
DCAA-CAC (Mr. Eddy)

Mr. **Dingall**. The gentleman from Oregon is recognized.

Mr. **Wyden**. I appreciate the fact——

Mr. **Lewis**. Did you ask me to give you something? Excuse me, Mr. Chairman. Did you ask me to send you something? I didn't quite understand.

Mr. **Dingell**. If you have any documents that are relevant to this, we would appreciate them. I think we have some from the auditors at this particular time.

Mr. **Lewis**. Well, my understanding—I don't know whether it was applied or withdrawn, but, it was my understanding, it was not applied.

Mr. **Wyden**. Mr. Lewis, we will await further elaboration from GD on this point, but the key here is we have seen numerous other examples where somehow you lost your fear of terrorism and subjected yourself to the peril of commercial air travel. We have numerous vouchers on that, and it raises the question that when you are paying for it yourself, you travel coach; when you are doing it and you are engaged in these various other things, which seem to us wholly of a personal nature, the Government picks up the bill.

Why don't you clarify this in our minds with respect to the way you conduct this personal travel?

Mr. **Lewis**. I thought that I had in this document and in my summary.

Mr. **Wyden**. You discussed the Hawaii flight with respect to you and your wife.

Mr. **Lewis**. No, I did not discuss the Hawaii flight before. As I said, the executive committee of our board feels that it is appropriate and important that I fly in corporate aircraft wherever reasonably possible, and I considered it wasn't reasonable to fly in our airplane to Hawaii. Judgment call. There have been some others.

I flew a commercial flight just before Christmas for the reason that it would be a serious—I thought it was unfair to our pilots because of the holiday, and so forth; but by and large I have—and the numbers, of course, as I said, are completely wrong—I have used that airplane for going to other board meetings of which I am a member, for going to national meetings or to business conferences, and I use it not only to go to this farm in Georgia but to other places which would be considered to have no direct business relationship at all.

The grand total of that, as I said in my numbers of the last—not the whole business about the board meetings and all, but going to all those places to which no business could be attributed directly, even though I work at all those places, but no business can be directly attributed—is $500,000 and some a year, or $17,000 a year.

That is not charged—all the accounts that include all those flights—that is over a 6-year period—not $22 million, not a half million dollars, no numbers on that order. And last year I believe the charges were about $17,000 or something like that. That is the average, and I paid the company back $15,600 for that.

Prior to that time, I did not make any payments for this. But the gratuity perquisite part of the calculation was included in the proxy statement filing.

Mr. **Wyden**. Let me ask you this: The Defense Contract Auditing Agency has challenged about $23 million in corporate aircraft charges for the period 1978 to 1983 because GD will not disclose the names of passengers riding in the aircraft. General Dynamics claims that the passenger lists have been destroyed and will only provide the Government the name of the so-called principal passenger of the aircraft.

My question to you is: In light of everything we have heard today about the budget and how every program has got to be squeezed for economies, how in the world can you expect the Government to pay for $23 million in corporate aircraft charges between 1978 and 1983 without full disclosure of the passengers riding on the aircraft?

Mr. **Lewis**. I don't think the passengers have anything to do with it. It is a question of whether the airplanes were used legitimately for business purposes or not.

Mr. **Dingell**. Let me ask this question first. Were the records indicating who were on the passenger lists destroyed?

Mr. **Lewis**. My understanding, Mr. Chairman, is that we are required to have passenger lists for one purpose required, and that is in case you have an accident.

Mr. **Dingell**. That is correct.

Mr. **Lewis**. Yes. But it is my understanding that beyond that, it is not required, and I don't know that they have been destroyed, but they are not there.

Mr. **Dingell**. They are not there. What happened to them?

Mr. **Lewis**. I don't know. They were removed or destroyed. I don't know. I don't want to quibble.

Mr. **Dingell**. Are these not required in connection with Government contracting?

Mr. **Lewis**. It's my understanding of that—I'm not sure, sir.

Mr. **Wyden**. The DCAA says that they are.

Mr. **Lewis**. The DCAA says a lot of things, but as I said earlier, they are an advisory group. They don't have any decisionmaking——

Mr. **Wyden**. It relates to whether or not there is a business matter being conducted.

Mr. **Lewis** [continuing]. No, it doesn't. It says they question it.

Mr. **Wyden**. It certainly does, and that is why it is being challenged. We are looking to see who the passengers are and whether there is a direct relationship to business.

Mr. **Lewis**. I certainly understand that. The point is that the DCAA will take these flights and say, I question those. They turn that over to the contracting officer, and the contracting officer gets down, flight by flight, who went and what was the purpose, and they finally decide.

Mr. **Dingell**. Did this happen?

Mr. **Lewis**. What?

Mr. **Dingell**. Were these flights gone over, flight by flight, to ascertain whether they in fact, were properly billed to begin with?

Mr. **Lewis**. It is my understanding that the contracting officer and our negotiator review in detail every item that is presented to them by the DCAA.

Mr. **Dingell**. Did they have the list of passengers?

Mr. **Lewis**. I don't believe they do.

Mr. **Dingell**. They did not?

Mr. LEWIS. I have been told they do not. This has all come out in these series of meetings that we have had preparing for this affair.

Mr. DINGELL. How quickly after the flight takes place are the passenger lists destroyed or not there?

Mr. LEWIS. Destroyed? Not there? I don't know, sir. I do not know, sir.

Mr. DINGELL. Have any of these flight records been changed or altered? Have any of these flight records of any of these aircraft been changed or altered?

Mr. LEWIS. With respect to the passengers, no, not to my knowledge. Not to my knowledge, no.

Mr. DINGELL. Is the purpose of the trip listed on the flight?

Mr. LEWIS. Yes. I think we go into that in some detail here. There are three or four different categories of flights, and there were six cases, as I mentioned both in my summary remarks and in the body of the report.

Out of 3,300 flights, 6 of them were overstricken, clearly visible to any auditor, and changed from an "E" flight, which stands for executive flight, to the "T" flight. And of those six, as I remember it—and I have it stated, so I'm fairly sure it is accurate—four of them were flights with no passengers, where hazardous training flights were carried out, which are not allowable with passengers on board, and those flights and those training exercises were scheduled ahead.

The pilot, the head of the flight office—this, incidentally, went on only for, I believe, a few months. That is not happening now. We had a new manager, who was determined to prove to his superior that he was doing his training job, and I understand that that was during a period of 1 year, was it, in 1982, something like that. That was stopped, and that was his zealous attempt to prove that he was training his pilots.

Mr. DINGELL. The evidence shows that flights on which you were a passenger were listed as training flights, Mr. Lewis.

Mr. LEWIS. No; I don't think so. There may have been two, but I don't think so. I don't know.

Mr. DINGELL. They were not?

Mr. LEWIS. I have not seen the documents. We have only copies of those, Mr. Chairman, I think your staff has the originals. Of the copies that we have, it is hard to tell. And there may be more than six. We can only identify six. Those that we identify, I don't believe I was on them, but I have not looked at them.

Mr. WYDEN. Why did General Dynamics turn the policy around in March of 1984? For years there was a pattern, in our view, of just destroying these passenger lists. Then in March of 1984 it changes. It seems to me that is an admission that General Dynamics should have provided these lists all along.

Mr. Lewis. I think it is an admission that probably the practice was not appropriate. I think it was a further review and recognition that probably there was no point in doing that, that it was a foolish thing to do and would raise suspicions, quite naturally.

I did not get involved in that decision. That is why I asked Mr. MacDonald when we had changed, because I did know that we had changed.

[Testimony resumes on p. 373.]

[The following information was submitted:]

INTERVIEW OF CORPORATE AIRCRAFT PILOTS

Pilots interviewed

Mr. Tom Gordon - Former GD Corporate Chief Pilot, Now Corporate Manager Business Travel Operations
Mr. Frank Beeby - GD Corporate Flight Captain
Mr. J. Sonnabend - GD Corporate Chief Pilot

Persons present for interview

Mr. John Ziombra - Subcommittee on Oversight & Investigations
Mr. Art Brouk - " " "
Mr. Ed Lynn - Former GD Vice President and General Counsel (Retired 1983), now a GD Attorney/Consultant

Date: September 5, 1984

Place: Mr. Lynn's office at GD Corporate Headquarters

Time: 10:00 a.m.

Purpose: Various questions regarding use of GD corporate aircraft.

Each of the three pilots above were interviewed separately and they provided the following responses to the questions below. Each person interviewed was also advised that although these discussions are somewhat informal, their responses would be sent the the Subcommittee. If answers are found to be inconsistent then the interviewee may be subject to additional formal questioning.

Q. Do you feel inhibited by Mr. Lynn's presence?

A. Gordon - No.

Beeby - No.

Sonnabend - No.

Q. Current status with GD? How many years as GD pilot?

A. Gordon - Currently corporate manager of Business Travel Operations. Retired as pilot in June 1982 after being pilot for GD since corporate aircraft were obtained.

Beeby - Full-time pilot with GD for last 7 1/2 years.

Sonnabend - Full-time pilot with GD for last 6 1/2 years; currently chief pilot.

Q. Approximately, how many flights do you make per month?

Gordon - When I was flying full-time in 1981, I flew 2 or 3 times per week; about 5 percent of the trips were overseas.

Beeby - I fly 10 to 40 flights per month (no overseas flights in last 1 1/2 years).

Sonnabend - I fly about 6-8 flights per month. (10 percent international).

Q. Please describe record keeping responsibilities and procedures for maintaining records?

A. Gordon - Since 1975-1976, GD uses a "planning sheet" to prepare for flights which includes list of passengers. The dispatcher, (GD employee Virginia Mitchem) is responsible for planning logistics and records prior to flight. Mr. Gordon said that Virginia Mitchem will dispose of the "planning sheet", including the passenger list, immediately after the flight is completed.

Beeby - Before flight, he receives flight schedule with names of passengers from flight dispatcher--Virginia Mitchem. At the completion of the flight, Mr. Beeby said he personally threw away the passenger list in a waste can. Mr. Beeby said that he understood it was company policy not to maintain passenger lists.

Sonnabend - Before flight, he receives flight schedule, including passenger list. At completion of flight, all documents are returned to flight dispatcher (Virginia Mitchem) who enters name of principal passenger into flight log document and then disposes of passenger list. Mr. Sonnabend said that he personally saw Virginia Mitchem dispose of the passenger lists. Mr. Sonnabend said that Mr. Tom Gordon told him to not retain the passnger lists.

Q. Has there been any recent change in record keeping procedures?

A. Gordon - Yes, as of March 23, 1984, we maintain complete passenger lists.

Beeby - Same answer as Gordon.

Sonnabend - Same answer as Gordon.

Q. When and where are training flights conducted and are passengers taken on training flights?

A. Gordon - In-house training flights are normally taken to Columbia, Missouri and Springfield, Illinois. Mr. Gordon said that there cannot be passengers on training flights. Training flights are conducted to maintain proficiency in certain flight aspects or when needed for FAA requirements.

Beeby - Training flights are conducted to maintain "currency" in flight procedures. FAA sometimes gets involved in training flights. Most training flights are to Columbia, Missouri. Flight attendants and passengers are normally not on training flights.

Sonnabend - Most training flights are to Columbia, Missouri and Springfield, Illinois. Training flights are conducted to keep proficiency with the corporate aircraft. Passengers and flight attendants are normally not on training flights.

Q. Can you please advise why there would be a training flight (No. 94) with three passengers from St. Louis to Albany, Georgia on October 7, 1982?

A. Gordon - This cannot be possible since passengers are not allowed on a training flight.

Beeby - Must be some sort of mix-up because passengers are normally not on training flights.

Sonnabend - I do not know why this was a training flight.

Q. Do you generally know the identify of your passengers?

A. Gordon - Yes.

Beeby - Only principal passengers or VIPs.

Sonnabend - Yes.

Q. Do you recall any instances of high ranking military officers or government officials being passengers?

A. Gordon - No military officers. Senator Goldwater was a passenger in the early 1970s.

Beeby - No military or any government officials or representatives.

Sonnabend - Military: Assistant Secretary of Navy (Hidalgo) was a passenger one time because he became ill at a ship commissioning ceremony. Also, military escorts sometimes accompany foreign officers as escorts. In the summer of 1983, I took a congressman and his family and staff from Washington, D.C., to Columbia, South Carolina for a ceremony where the Air National Guard received an F-16. I cannot remember the Congressman's name, but he was from the district of Columbia, South Carolina.

Q. Do you ever have wives or children of GD officials as passengers? Specifics?

A. Gordon - Sometimes, I cannot recall any specifics.

Beeby - Occassionally, Mrs. Lewis is a passenger.

Sonnabend - Occassionally, but I cannot recall any specifics.

Q. Do you ever have wives or children of non GD employees as passengers?

A. Gordon - Yes - a "time or two."

Beeby - I can not think of any.

Sonnabend - Not aware of any.

Q. What are the reasons for the frequent flights to Albany, Georgia?

A. Gordon - I never question the reason for a trip.

Beeby - Lewis has a farm there about 10 miles from the airport.

Sonnabend - To transport and pick up company executives.

Q. Does Mr. Lewis own a farm or lodge in Albany, Georgia and have you been there? What facilities are there?

Gordon - Yes, Mr. Lewis has a farm in Albany and yes I have been there. It is a grain farm.

Beeby - Yes, Mr. Lewis has a farm in Albany but I have never been there.

Sonnabend - Yes, Mr. Lewis has a farm in Albany but I have never been there.

Q. Have you ever flown the corporate aircraft to Aspen, Colorado? If so, what is the purpose of such trips?

A. Gordon - Yes, I have flown to Aspen but the purpose of the flights is company private business.

Beeby - Yes, I have flown to Aspen but I do not know the purpose of the trips.

Sonnabend - Yes, I have flown to Aspen. Purpose of trips is vacation. I recall taking family members of GD officials and especially "Crown" family.

Q. What were the purposes of the flights to Augusta, Georgia and Greenbrier, West Virginia?

A. Gordon - I do not know.

Beeby - I don't know.

Sonnabend - I don't know.

Q. Are you aware that changes are being mde to flight logs such as some flights being changed to training flights? For example, trip No. 94 on October 7, 1982 was changed to a training flight (with 3 passengers) apparently after the Captain signed the document.

A. Gordon - I don't know who made these changes.

Beeby - I don't know why these changes were made.

Sonnabend - I did not make the changes. I signed some of the questioned documents which were changed but I did not make the changes. These changes were made after I submitted the document.

9-10-84
John Ziombra

NOT AVAILABLE 9-10-84
Arthur W. Brouk

INTERVIEW OF CORPORATE FLIGHT ATTENDANTS

Attendants

Vicki Dunn
Thelma Jesson
Jane-Anne Gantzer

Persons present for interview

Mr. John Ziombra - Subcommittee on Oversight and Investigations
Mr. Art Brouk - " " "
Mr. Ed Lynn - Former GD Vice President and General Counsel (Retired 1983 - now a GD attorney/consultant)

Date: September 6, 1984

Place: Mr. Lynn's office at GD Corporate Headquarters

Time: 10:00 a.m.

Purpose: Various questions regarding use of GD corporate aircraft.

Each of the three flight attendants above were interviewed separately and provided the following responses to the questions below. Each person interviewed was also advised that although these discussions are somewhat informal, their responses would be sent to the Subcommittee. If answers are found to be inconsistent then the interviewers may be subject to additional formal questioning.

Q. Do you feel inhibited by Mr. Lynn's presence?

A. Dunn - No.

Jesson - No.

Gantzer - No.

Q. Is your position full or part-time and how long have you been with GD?

A. Dunn - Part time, 7 years.

Jesson - Part time, 3 years.

Gantzer - Part time, 5 months.

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Q. How many flights do you work per month?

A. Dunn - 1 or 2 flights, 100 percent domestic in last 3 years.

Jesson - 1 flight per month--none since June 1984. About 2 international flights per year.

Gantzer - I have made a total of 6 flights since starting in April 1984.

Q. What are your record keeping responsibilities before and after flights?

A. Dunn - Prior to flights, I receive a "passenger manifest", including destination and flying time. Also, I receive inventory sheets and checklists of tasks to be performed for each flight. At the end of the flight, I personally throw away the passenger list because I have no need to keep the list. I have no other record keeping responsibilities.

Jesson - Prior to flight, I receive a passenger list from the pilot or dispatcher (Virginia Mitchem). At the end of the flight, I throw away the passenger list at the airport office. I throw away the passenger lists because no one has ever told me what to do with them. I have no record keeping responsibilities.

Gantzer - Prior to a flight I receive a passenger list and an inventory checklist. I have kept the passenger list for 5 of my 6 flights even though I am not required to keep the list. I have no other record keeping responsibilities.

Q. Have any of your record keeping responsibilities (i.e., passenger lists) changed during the last 2 years?

A. Dunn - No.

Jesson - No.

Gantzer - No.

Q. Do you go on any pilot training flights?

A. Dunn - No.

Jesson - No.

Gantzer - No.

Q. Are you generally aware of the identify of your passengers?

A. Dunn - Yes.

Jesson - Yes.

Gantzer - No.

Q. Do you recall instances of any of the following as passengers on any flights, high ranking military officers, government officials, congressmen or staffs, Admiral Rickover, celebrities, wives or children of GD employees, or wives or children of non-GD employees?

A. Dunn - only GD wives primarily to accompany husbands on ceremonies such as boat launches.

Jesson - only GD wives and adult children going to Aspen, Colorado (2 times).

Gantzer - only wives of GD employees and Susan Crown (about age 30).
Note: Mr. Lester Crown is a member of the Board of Directors.

Q. Have you ever flown to Albany, Georgia?

A. Dunn - No.

Jesson - No.

Gantzer - No.

Q. What are your duties during flights?

A. Dunn - Safety of passengers and serving of meals.

Jesson - Comfort of passengers and serve meals.

Gantzer - Safety of passengers and serve meals.

Q. Have you ever flown to Aspen, Colorado; Augusta, Georgia; Greenbrier, West Virginia; Lake Tahoe, California and what was the purpose of the trip?

A. Dunn - I have not been to any of the locations.

Jesson - Aspen only, I did not know the reason for the trip.

Gantzer - I have not flown to any of the locations mentioned.

At the conclusion of the interviews, Mr. Lynn pointed out that General Dynamics has never had full-time flight attendants and that most flights do not employ flight attendants.

9-10-84
John Ciombra

NOT AVAILABLE 9-10-84
Arthur W. Brouk

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INTERVIEW OF SECRETARY, CORPORATE FLIGHT DEPARTMENT

Person interviewed

Ms. Virginia Mitchem, Secretary, Corporate Flight Department

Persons present for interview

Mr. John Ziombra - Subcommittee on Oversight and Investigations

Mr. Art Brouk - " " "

Mr. Ed Lynn - Former Vice President and General Counsel, General Dynamics, retired in 1983, now a GD consultant/attorney.

Date: September 7, 1984

Time: 9:30 a.m.

Place: Spirit of St. Louis Airport, Chesterfield, Missouri

Purpose: To obtain knowledge on utilization of General Dynamics' aircraft and to observe flight record files.

Ms. Mitchem was advised that although these discussion sare somewhat informal, her responses would be sent to the Subcommittee. If answers are found to be inconsistent, then she may be subject to additional formal questioning.

Q. Do you feel inhibited by Mr. Lynn's presence during this interview?

A. No.

Q. Is your position full-time or part-time and how long have you been employed in this capacity?

A. Full-time position, 8 years.

Q. Generally explain your record keeping responsibilities with regard to the flights on corporate aircraft.

A. I get a phone call from any of the executive officer's secretaries requesting availability of corporate aircraft--(usually one weeks notice). I then make out a worksheet with the pertinent information such as time, destination, and passenger list. Every Friday, I prepare a schedule for the next week listing the scheduled flights along with the passenger lists and other pertinent data. This schedule is sent by computer (electronic mail) to all of the affected executive secretaries. Passenger list working sheets have only been maintained since March 1984 and all previous worksheets have been destroyed.

Q. Who gave the instruction to destroy the passenger lists?

A. Mr. Tom Gordon (Former Flight Manager).

Q. Do you keep records of any GD aircraft from other divisions that may come to St. Louis?

A. Yes, we have a record of all incoming flights from other GD aircraft from the division for cost distribution purposes.

Q. Have you ever arranged for trips on corporate aircraft for any of the following: high ranking military officers, government officials, i.e., Congressmen or staffs, celebrities, GD wives and children, non GD wives and children? Please be specific, if possible?

A. High ranking officers - No.
Government officials - Yes, specifically a flight in May 1984 from Montgomery, Alabama to Groton, Connecticut for a boat commissioning ceremony. (Note: We will trace this).

Q. Do you know the purpose of trips to Albany, Georgia?

A. No, only that they are listed as "company private" and Mr. Lewis is normally the passenger.

Q. Do you know the purpose of trips to Aspen, Colorado?

A. No, only that members of the Lester Crown Family like to go there.

Q. Do you remember any trips to Greenbrier, West Virginia, Lake Tahoe, California or Augusta, Georgia?

A. Greenbrier - Yes, can't remember the purpose of the trip(s).
Lake Tahoe - No.
Augusta - can't remember.

Q. Who is your immediate supervisor?

A. Mr. John Langer, flight manager.

Q. Do you make any changes to the flight logs?

A. No, I do not have any record keeping responsibilities with flight logs.

John Ziombra 9-10-84
John Ziombra

NOT AVAILABLE 9-10-84
Arthur W. Brouk

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INTERVIEW OF CORPORATE FLIGHT DEPARTMENT MANAGER

Persons interviewed

John Langer, Manager, Corporate Flight Department

Persons present for interview

Mr. John Ziombra - Subcommittee on Oversight and Investigations

Mr. Art Brouk - " " "

Mr. Ed Lynn - Former GD Vice President and General Counsel. Retired in 1983, now a consultant/attorney.

Date: September 7, 1984,

Time: 10:30 a.m.

Place: Spirit of St. Louis Airport, Chesterfield, Missouri

Purpose: To obtain knowledge an utilization of General Dynamic's aircraft.

Mr. Langer, who is also a General Dynamic's pilot, was observing our examination of Ms. Virginia Mitchem's flight records. This presented us with an opportunity to ask him what he knew of the flights to Albany, Georgia.

Q. Have you ever flown to Albany, Georgia?

A. Yes.

Q. Did you ever make changes to the flight logs, specifically on a August 6, 1982 flight to Albany, Georgia which was changed to a training flight?

A. Yes, even though there were passengers on this flight and training flights are not made with passengers, I made that change because I wanted the pilot to make an instrument approach flight and use it as a training flight. I considered it low risk. We conduct in-house training in addition to the qualification training conducted by contract.

Q. Why was Albany, Georgia used as a destination for training flights on several occasions?

A. Albany, Georgia is used for training flights because frequently they are "deadhead" runs. That is, there are usually only passengers going one-way, either to or from Albany.

Q. Do you know the purpose of the trips to Albany, Georgia?

A. No.

Q. Does Mr. Lewis have a farm in Albany, Georgia?

A. Yes, about 20 miles from the airport.

Q. Have you ever been at Mr. Lewis' farm?

A. Yes, about 2 1/2 years ago.

Q. What type of facilities are located at the farm, i.e., any meeting rooms, swimming pools, tennis courts, etc. or any other facilities?

A. No meeting rooms, only a small house. When I was there a new house was under construction.

Q. How large is Mr. Lewis' farm in Albany, Georgia?

A. Not exactly sure, but is is over 500 acres.

Q. Have you ever been duck hunting on Mr. Lewis' farm?

A. No, I am not duck hunter.

Q. Are there any duck hunting facilities at Mr. Lewis' farm?

A. I don't know.

Q. What types of farm products are generally raised?

A. Grains; corn, wheat, soybeans.

Q. Any woods?

A. Yes, but mostly tillable acres, a creek runs through the place.

John Ziombra 9-10-84
John Ziombra

NOT AVAILABLE 9-10-84
Arthur W. Brouk

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GENERAL DYNAMICS GENERAL DYNAMICS PRIVATE INFORMATION

St. Louis

FLIGHT LOG

	AIRCRAFT TYPE			
[illegible]	N2815A	N[illegible]	[redacted]	No 113

NO	PILOT NAME (POSITION A)	NO	PILOT NAME (POSITION B)	NO	ACM NAME (POSITION C)	NO	ACM NAME (POSITION D)
03	SONNABEND J	04	EGEL				

LEG NO	SCHED DEP TIME	CAT	CODE	NO OF PAX	AUTH CODE	STATION IDENTIFIER FROM	STATION IDENTIFIER TO	NAUT DIST	START FUEL	TIMES START	TIMES TAKEOFF	TIMES LAND	TIMES SHUT-DOWN	SHUTDOWN FUEL
1	15[illegible]	A	-	-	----	KSUS	KMON	0233	07100	1500	1522	1609	1613	05000
2	17[illegible]	F	03	03	0000	KMOW	KSUS	0237	05000	1700	1709	1755	1759	2900
3														
4														
5														
6														
7														
8														

[redacted]

PERFORMANCE DATA

LEG		TAKEOFF WEIGHT	FLIGHT LEVEL	T/S	OAT
1	[redacted]	22000	230	[illegible]	[illegible]

TOTAL

PILOT FLIGHT ACTIVITY

POSITION A FLIGHT ACTIVITY · POSITION B FLIGHT ACTIVITY

LEG NO	A COM	A T-OFF D	A T-OFF N	A INST TIME	A ILS 1	A ILS 2	A VOR	A NDB	A RAD	A OTH	A LDGS D	A LDGS N	A NITE TIME	B COM	B T-OFF D	B T-OFF N	B INST TIME	B ILS 1	B ILS 2	B VOR	B NDB	B RAD	B OTH	B LDGS D	B LDGS N	B NITE TIME
1	A			1									.	S	1		0.1	1						1		.
2	A			.							1		.	S			.									.
3				.									.				.									.
4				.									.				.									.
5				.									.				.									.
6				.									.				.									.
7				.									.				.									.
8				.									.				.									.

A

B

FUEL PURCHASES

LEG NO	ST	QUANTITY	TY	TOTAL COST US $
1	MO	00800	1	1320

[redacted]

DELAYS LEG NO	DELAYS TIME	DELAYS CODE	POSITION CHANGES LEG NO	PILOT NO	TO PS	LEG NO	PILOT NO	TO PS	MULTIPLE AUTHORIZATION CODES PER LEG LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX
1	[illegible]	[illegible]							2	--0D	03						

[redacted]

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GENERAL DYNAMICS PRIVATE INFORMATION

[redacted]

GENERAL DYNAMICS

FLIGHT LOG

[illegible] [illegible] [illegible] [illegible] 54

NO	PILOT NAME (POSITION A)	NO	PILOT NAME (POSITION B)	NO	ACM NAME (POSITION C)	NO	ACM NAME (POSITION D)
45	SDUNABAND J	43	BEEBY				

LEG NO	SCHED DEP TIME	CAT	[illegible]	NO OF PAX	AUTH CODE	STATION IDENTIFIER FROM	STATION IDENTIFIER TO	NAUT DIST	START FUEL	TIMES START	TIMES TAKEOFF	TIMES LAND	TIMES SHUT-DOWN	SHUTDOWN FUEL
1	1230	E	63	53	0000	KSNS	KDCA	0551	6400	1230	1300	1444	1445	0800
2	2004	[illegible]	52	52	0000	KDCA	KABY	0585	6400	1658	1706	1833	1841	2600
3	1806	[illegible]	[illegible]	[illegible]	---	KABY	KSNS	[illegible]	6400	1851	1857	2026	2030	2500
4														
5														
6														
7														
8														

[redacted]

PILOT FLIGHT ACTIVITY

LEG NO	POSITION A FLIGHT ACTIVITY COM	INST TIME	APPROACHES	NITE TIME	POSITION B FLIGHT ACTIVITY COM	INST TIME	APPROACHES	NITE TIME
1	P1	051	1	.	S	.		.
2	A	.		.	F1	4H	1 1	.
3	P1	03	1 1	.	S	.		.
4		.		.		.		.
5		.		.		.		.
6		.		.		.		.
7		.		.		.		.
8		.		.		.		.

A B

PERFORMANCE DATA

[illegible]	TAKEOFF WEIGHT	FLIGHT LEVEL	TAS	[illegible]	TOTAL
[redacted]	21600	37	0236	-33	

FUEL PURCHASES

LEG NO	ST	QUANTITY	TY	TOTAL COST US $
1	MO	500	J	0826
2	VA	550	J	1049
3	GA	450	J	734

[redacted]

DELAYS LEG NO	TIME	TYPE	POSITION CHANGES LEG NO	PILOT NO	TO PS	LEG NO	PILOT NO	TO PS	MULTIPLE AUTHORIZATION CODES PER LEG LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX
1	5	ATC							1	--1100	1						
									1	--GT0	1						
									1	--EV0	1						

[redacted]

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GENERAL DYNAMICS GENERAL DYNAMICS PRIVATE INFORMATION

St. Lo[illegible]

FLI[illegible]

[redacted] 0520 | N265A | N24406 | 041982 Nº 115

NO	PILOT NAME (POSITION A)	NO	PILOT NAME (POSITION B)	NO	ACM NAME (POSITION C)	NO	ACM NAME (POSITION D)
03	B[illegible], A F	05	Sonnabend J				

LEG NO	SCHED DEP. TIME	CAT	CREW	NO OF PAX	AUTH CODE	STATION IDENTIFIER FROM	STATION IDENTIFIER TO	NAUT DIST	START FUEL	TIMES START	TIMES TAKEOFF	TIMES LAND	TIMES SHUTDOWN	SHUTDOWN FUEL
1	2200	E	02	02	[illegible]	KSUS	KPTK	0120	5400	2158	2243	2311	2314	0240
2	2335	E	02	02	[illegible]	KPTK	KSTL	0425	0560	0003	0014	0127	[illegible]	0250
3	0157	E	01	01	-589	KSTL	KSUS	0015	2500	0132	0137	0142	[illegible]	2200
4														
5														
6														
7														
8														

[redacted]

PILOT FLIGHT ACTIVITY

LEG NO	A: COM	A: T/OFF D	A: T/OFF N	A: INST TIME	A: APPROACHES ILS 1	ILS 2	VOR	NDB	RAD	OTH	A: LDG D	A: LDG N	A: NITE TIME	B: COM	B: T/OFF D	B: T/OFF N	B: INST TIME	B: APPROACHES ILS 1	ILS 2	VOR	NDB	RAD	OTH	B: LDG D	B: LDG N	B: NITE TIME
1	A													F	1		0.1	1						1		
2	0	1		.1	1							1	.2	S												.2
3	0	1										1	.3	S												.3
4																										
5																										
6																										
7																										
8																										

A B

PERFORMANCE DATA

LEG		TAKEOFF WEIGHT	FLIGHT LEVEL	TAS	DEV
2	[redacted]	21460	350	[illegible]	-21

TOTAL

FUEL PURCHASES

LEG NO	ST	QUANTITY	TY	TOTAL COST US $
1	MO	044440	U	4664
2	MI	00450	U	0791

[redacted]

DELAYS

LEG NO	TIME	TYPE
2	17	ATC

POSITION CHANGES

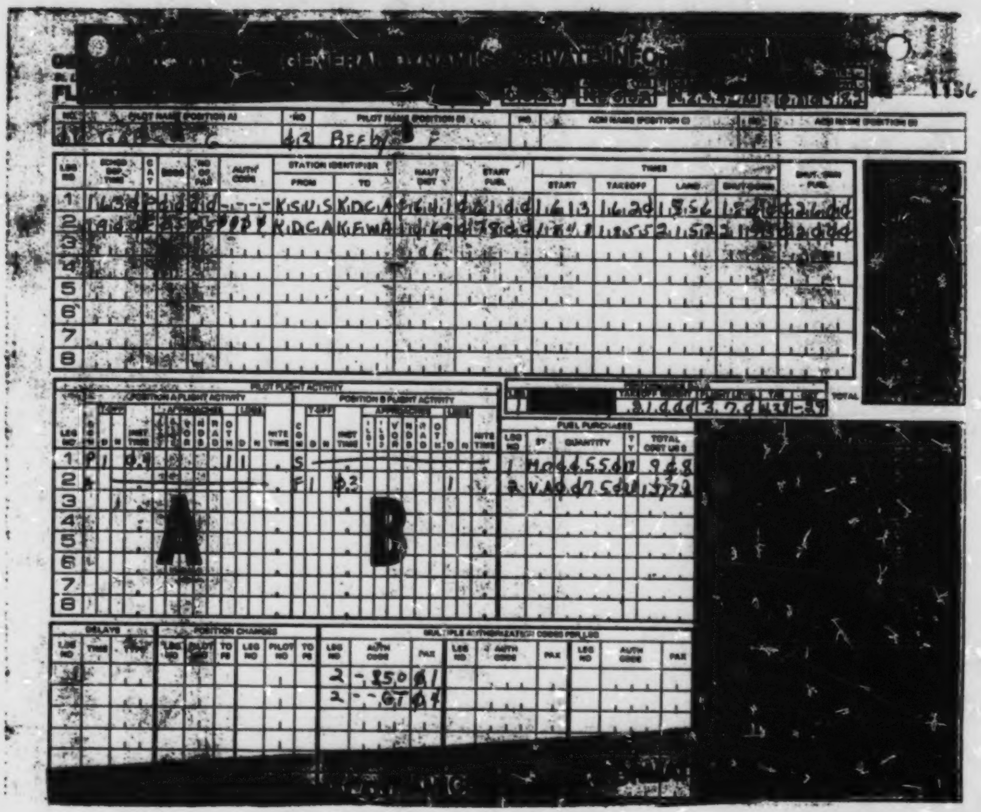
LEG NO	PILOT NO	TO PS	LEG NO	PILOT NO	TO PS

MULTIPLE AUTHORIZATION CODES PER LEG

LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX
1	-1110	01						
1	-581	A1						
2	-589	02						

GENERAL DYNAMICS

368.



GENERAL DYNAMICS PRIVATE INFO[illegible]

1136

NO	PILOT NAME (POSITION A)	NO	PILOT NAME (POSITION B)	NO	ACM NAME (POSITION C)	NO	ACM NAME (POSITION D)
[illegible]	GA[illegible] C	43	Beeby F				

LEG NO	SCHED DEP TIME	CAT	[illegible]	NO OF PAX	AUTH CODE	FROM	TO	[illegible]	START FUEL	START	TAKEOFF	LAND	SHUTDOWN	SHUT DOWN FUEL
1	1630	[illegible]	[illegible]	[illegible]	- - - -	KSUS	KDCA	[illegible]	[illegible]	1613	1620	1556	[illegible]	[illegible]
2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	KDCA	KFWA	[illegible]	[illegible]	[illegible]	1855	2152	[illegible]	[illegible]
3														
4														
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[redacted]

LEG	[illegible]	TAKEOFF WEIGHT	[illegible]	[illegible]	[illegible]
1	[redacted]	21000	370	[illegible]	[illegible]

TOTAL

PILOT FLIGHT ACTIVITY

POSITION A FLIGHT ACTIVITY

LEG NO				INST TIME								D	N	NITE TIME
1	P	1		0.9								1	1	
2														

POSITION B FLIGHT ACTIVITY

LEG NO	COM	D	N	INST TIME	ILS 1	ILS 2	VOR	NDB	RAD	OTH	D	N	NITE TIME
1	S												
2	F	1		0.3								1	

A

B

FUEL PURCHASES

LEG NO	ST	QUANTITY	TY	TOTAL COST US $
1	MO	04550	[illegible]	948
2	VA	07500	[illegible]	1372

[redacted]

DELAYS			POSITION CHANGES					
LEG NO	TIME	TYPE	LEG NO	PILOT NO	TO PS	LEG NO	PILOT NO	TO PS

MULTIPLE AUTHORIZATION CODES PER LEG

LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX	LEG NO	AUTH CODE	PAX
2	- 850	01						
2	- - GT	04						

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GENERAL DYNAMICS [illegible]

No. 1151

[illegible] A G 63 Beeby B F

LEG NO	SCHED DEP TIME	CAT	[illegible]	NO OF PAX	AUTH CODE	STATION IDENTIFIER FROM	STATION IDENTIFIER TO	NAV DIST	START FUEL	TIME START	TIME TAKEOFF	TIME LAND	TIME SHUT DOWN	SHUTDOWN FUEL
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2	[illegible]	[illegible]	[illegible]	[illegible]	—	KDCA	KABY	[illegible]	[illegible]	2253	[illegible]	[illegible]	[illegible]	[illegible]
3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	KABY	KSNS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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PILOT FLIGHT ACTIVITY

POSITION A FLIGHT ACTIVITY — POSITION B FLIGHT ACTIVITY

A B

LEG NO	[illegible]
1	P1 [illegible] 11 S
2	A 0.3 P1 4.4 1 [illegible]
3	P 1.5 1.5 [illegible]
4	
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TOTAL

FUEL PURCHASES

LEG NO	ST	QUANTITY	TY	TOTAL COST US $
1	T[illegible]	[illegible]	[illegible]	[illegible]
2	VA	[illegible]	U	230
3	GA	[illegible]	U	[illegible]

DELAYS

POSITION CHANGES

MULTIPLE AUTHORIZATION CODES FOR LEG

LEG NO	AUTH CODE	PAX
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1	[illegible]	
3	[illegible]	
3	[illegible]	

370

370

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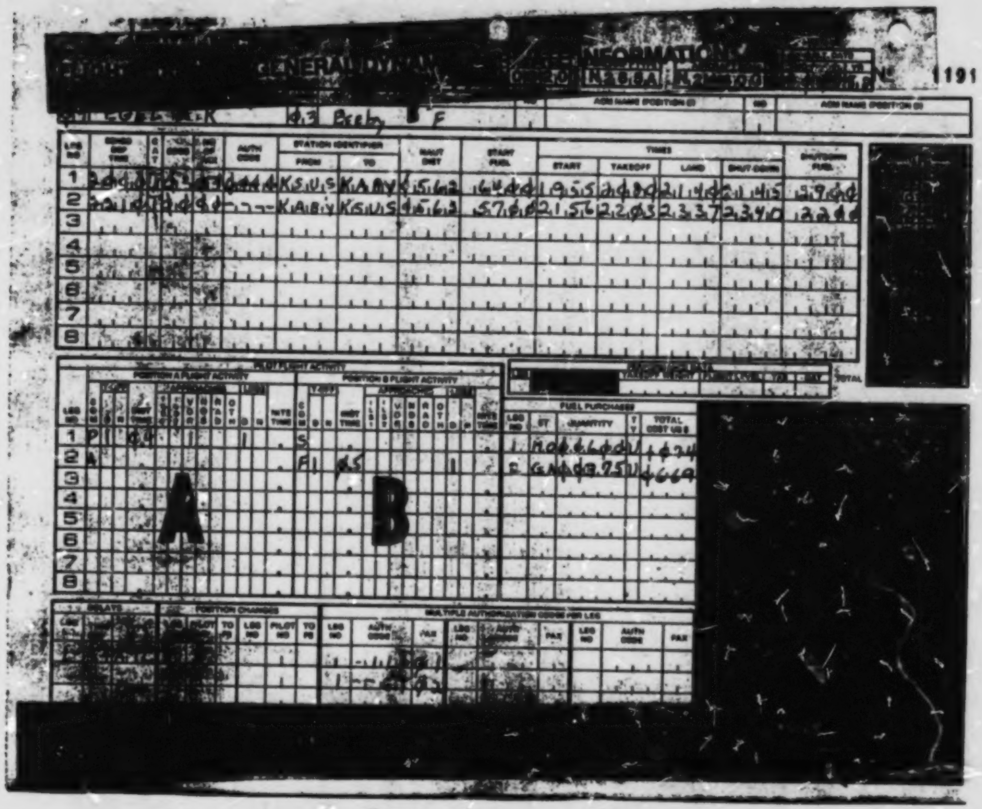

GENERAL DYNAMICS ... INFORMATION

N 1191

N288A

LEG NO				AUTH CODE	STATION IDENTIFIER FROM	TO	NAUT DIST	START FUEL	START	TAKEOFF	LAND	SHUT DOWN	SHUTDOWN FUEL	
1	2000			044	KSUS	KABY	562	6400	1955	2000	2140	2145	2900	
2	2210			---	KABY	KSUS	562	5700	2156	2205	2337	2340	2200	
3														
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7														
8														[redacted]

FUEL PURCHASES

LEG NO	ST	QUANTITY	TY	TOTAL COST US$
1	MO	006400	U	$634
2	GA	0003 75	U	$669

A

B

MULTIPLE AUTHORIZATION CODES PER LEG

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371

371.

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	PILOT NAME (POSITION A)		ACM NAME (POSITION C)	NO	ACM NAME (POSITION D)
[redacted]	42 LANG[redacted]				

LEG NO	SCHED DEP TIME				AUTH CODE	STATION IDENTIFIER FROM	TO	NAUT DIST	FUEL	START	TAKEOFF	LAND	SHUTDOWN	SHUTDOWN FUEL
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2	2140	T	40	43	—	KABN	KSUS	556	6944	2431	2439	2214	2215	2800
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4														
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[redacted]

PILOT FLIGHT ACTIVITY

LEG NO	POSITION A FLIGHT ACTIVITY		POSITION B FLIGHT ACTIVITY	
1	P2	06 1 1 2	I	
2	1		I 1	0.3 1
3		A		B
4				
5				
6				
7				
8				

[redacted]

FUEL PURCHASES

LEG NO	ST	QUANTITY	TY	TOTAL COL / USS
1	MO	44L000	U	1974
2	GA	004000	U	1734

[redacted]

DELAYS | POSITION CHANGES | MULTIPLE AUTHORIZATION CODES FOR LEG

[redacted]

[redacted]

3721

Mr. WYDEN. Let me say this, Mr. Lewis, because I have been sitting here for 4 hours. I came today and said that the evidence looked to me like a textbook case of fleecing the taxpayer. And having sat here for 4 hours, it seems to me that you could write chapter 1 on why a CEO isn't willing to come forward and take full responsibility.

I think I would like to conclude with just one last question. Given the concern of the members here and the members of all political philosophies, what are you going to do personally now to turn the situation around and make the Nation's largest defense contractor run with the degree of accountability that the taxpayers of this country want? What are you going to do personally from this day on?

Mr. LEWIS. I think we have started doing that already. I think, as I said earlier, rather than simply rebelling against the intrusion in our papers and documents, we have been looking at these issues. We have been trying to find out why. We would like to have had this investigating team come out then and come back empty handed. Well, they haven't, and we have already started looking and trying to improve our practices, and I can guarantee you that we will continue.

We are going to work hard to get the more disclosable, more open and more assured that we do not entertain illegally, that we do not give auditors and negotiators difficult problems, by identifying things more nearly accurately.

Mr. WYDEN. Let me be specific. Are you going to keep Mr. Crown on the board?

Mr. LEWIS. I would think so, yes. I read your letter that came down here, and I read what the Secretary had to say about why he did not remove the security clearance of Mr. Crown.

Mr. WYDEN. The Secretary's letter, for all practical purposes, says that there is only a procedure to go before his clearance is going to be taken away. They are saying that the rules of the Department of Defense in that letter from Mr. Weinberger were violated by GD, that the derogatory information was required to have been passed on. It wasn't passed on.

We have admitted bribery. We have someone who was involved with State legislature. I mean the record of his moral turpitude is very clear, and you are still going to keep him on the board. Is that going to satisfy the taxpayers of this country that you are really trying to clean up the stink?

Mr. LEWIS. I think it is a subject for the shareholders of General Dynamics to decide, and as you are well aware, or I hope you are well aware, this entire issue was laid out in great detail before the shareholders in proxy statements, I believe, in 1975, 1976 and 1977 or something like that. The SEC required us to restate the 1974——

Mr. BRYANT. Mr. Lewis, I am not concerned about your shareholders. I am concerned about the people who fly the airplanes you make. I am concerned about the guys who fly your airplanes and drive those submarines. You have got a crook on your board of directors, and you are telling us today he ought to stay there. He is a crook. He bribed people. He falsified documents. You have admitted that he sees sensitive classified documents. And you are telling us today that you are going to keep him on the board and he is going to continue to see them as a member of the board of directors of your company?

You are the problem in your corporation. If you can sit here and tell a congressional committee that you are going to let him stay there and continue to see these classified documents, the stink in the corporation and the problem we have got with General Dynamics is sitting at this table right here.

You ought to be hanging your head in shame. I am absolutely disgusted that you can sit here and make an admission like that with a straight face. What you said prior to us today is bad enough, but this is the icing on the cake.

Mr. LEWIS. Sir, I am very sorry you feel that way, and I know your statement is fully inaccurate, in our judgment—I don't want to debate with you when you're in a different position than I am in this room.

Mr. Bryant. I am in a position of responsibility to some taxpayers back in Dallas, TX. You, unfortunately, are in the position of being able to look at all the sensitive classified documents that pertain to the U.S. military equipment that you manufacture.

Now, what has been inaccurate about what I just said? Do you not have a crook on your board of directors? Do you or do you not?

Mr. LEWIS. To my knowledge, he has never been tried.

Mr. BRYANT. Is he a crook? Did he commit the crime of bribery or not?

Mr. LEWIS. I do not know.

Mr. BRYANT. You don't know and you have never even bothered to ask him, since you are chairman of the board? Have you ever asked him?

Mr. LEWIS. I have understood that he volunteered.

Mr. BRYANT. Have you ever asked him? It is about time you started saying yes or no to our inquiries. Have you ever asked this guy if he committed bribery?

Mr. LEWIS. I did not ask him if he committed bribery, no. I asked the facts beforehand.

Mr. BRYANT. Have you ever discussed the matter with him?

Mr. LEWIS. Yes.

Mr. BRYANT. Do you have some reason to believe that he did not commit bribery?

Mr. LEWIS. No; I do not.

Mr. BRYANT. Are you aware—You do not? You are apparently aware——

Mr. LEWIS. No; I said of no reason. You asked the question, do I have any evidence that he did not, and I said I do not have that evidence.

Mr. BRYANT. You are aware, are you not, of the documents that make it very clear that he committed bribery; are you not aware of those?

Mr. LEWIS. Yes. That is what I said.

Mr. BRYANT. And you are going to keep him on your board of directors?

The problem with General Dynamics is you. The problem with General Dynamics are the people whom you hire and who cater and kowtow to your particular directions and follow your moral leadership. Anybody that comes before this committee and says he has doubts about whether moral turpitude and bribery is involved should be disqualified from any further connection with contracting with the U.S. Government. I don't care if it is submarines or paper clips.

Mr. **Wyden**. If I might reclaim my time just for one last point, Mr. Lewis.

I think what concerns the members of the subcommittee is your willingness to always say it is someone else's responsibility. I asked you whether you were going to keep Mr. Crown on the board, and you said you were going to leave it up to the shareholders. I see no evidence, with respect to this matter or anything else, that you feel that you personally have any affirmative duty to try to clean up this mess.

You are going to say, well, maybe the board will take a look at it or the stockholders or someone else——

Mr. **Lewis**. I didn't say that, sir. I do accept responsibility. I am here and I do accept responsibility for what has gone on in this company and what will go on in the future, and there is no hedging on that. I merely have tried to explain to you that during this day I am not intimately familiar with all these details at the lower level.

I do not consider Mr. Bryant's issue a trivial detail, but I am not knowledgeable of all the details. But I take responsibility for the situation that we have. I have taken the responsibility to start getting these situations clarified or changed, improved so that they will be clear and clarified. I do take the responsibility for it.

But with respect to Mr. Crown, for example, in spite of the very strenuous statements of Mr. Bryant, I believe that Mr. Crown has through his career, from all I have been able to obtain and learn from everyone else—there is this one case where this man made payments to an association which was used to bribe legislators. He did not bribe them but he provided some money for that purpose. And that one time, I think, is without question.

Now, that occurred in 1970-something, 1972 or 1973 or something. We have no indication of anything that Mr. Crown has done before or after that is even mildly questionable.

Mr. **Dingell**. Let me ask this question. He files for a security clearance which must be reviewed periodically; is that not a fact? Mr. Crown filed for a security clearance which must be done periodically; is that not so?

Mr. **Lewis**. That's true.

Mr. **Dingell**. And he must renew that security clearance periodically, must he not?

Mr. **Lewis**. I'm not sure. I don't believe so, Mr. Chairman. If you go to a higher category, you have got to renew it.

Mr. **Dingell**. Doesn't he have some kind of affirmative responsibility to inform the Government of serious charges being leveled against him, Mr. Lewis?

Mr. **Lewis**. Counsel has told us that in the terms of the questionnaire, he has never been charged with any crime.

Mr. **Wyden**. Because he has admitted bribery.

Mr. **Lewis**. I am trying to answer the chairman's question about his responsibilities, Mr. Wyden. Not being a lawyer—and you gentlemen are—but it is my understanding that within those words—and whether they are quibbling words or not, I cannot say—but he has never been charged, and therefore, if he came to a question, have you been charged with doing this or that, he can honestly say no.

Mr. **Dingell**. I think in the language——

Mr. **Lewis**. Believe me, gentlemen, this issue of Mr. Crown's aberration has been widely publicized. There is no question about the people in the Defense Department or the public or the investing public under the scrutiny and oversight of this committee and SEC. It is fully well known and it seems to me that that one aberration does not require this man's punishment for life.

Mr. **Dingell**. We are not discussing his punishment. We are discussing the character of his clearances and his behavior. You indicate that he has had one transgression. He serves on the board. He was involved in a proceeding with the SEC, which also involved, I think to a degree, your company with regard to his failure to disclose.

Mr. **Lewis**. Pardon me?

Mr. **Dingell**. He was involved also in 1982 when he applied for a concurrent secret clearance in his capacity as an officer of Trans-World Airlines. A previous civil action has been filed by the SEC against him in 1977 to enjoin him from undertaking certain actions in the future; that is, omitting material facts from statements to stockholders, and making false entry in the records of a subsidiary. That's from the letter of the Secretary, Secretary Weinberger.

In any event, he occupies the splendid position of an unindicted coconspirator. I understand he has some distinguished accomplices in that particular capacity.

Mr. **Wyden**. I just want to come back to something because we have received a letter from W.R. Crane, corporate director of GD, Government Contracts Settlements Department, and it shows the Hawaii tickets that I spoke of earlier were billed to the Government but were withdrawn when questioned by the subcommittee staff.

I think I am just going to wrap up with one last point, Mr. Lewis. I think this is a very sad day for the taxpayers of this country. Because I thought when we came to this hearing what we were going to see was a situation where you all basically came in and said, we blew it. In one instance after another——

Mr. **Lewis**. I said that. I said that should not have been done over and over again.

Mr. **Wyden** [continuing]. I must say I have never heard you say anything that resembled it. We have spent 4 hours here of legalisms. You have used every conceivable legal arrangement to try to say that there is less here than meets the eye. That was your central argument at the beginning, that the press and all other kinds of people have magnified this, that there is less here than meets the eye.

In my view, having sat here for 4 hours, there is more here than meets the eye, and it particularly involves your failure at this point from here on to recognize that you have an affirmative duty to go out and clean this mess up.

Thank you, Mr. Chairman.

Mr. DINGELL. The Chair recognizes the gentleman from Minnesota.

Mr. SIKORSKI. Just for clarification of the record, it has been repeated that this Mr. Lester Crown only had one problem. That was a problem with the law. I would hypothesize that in any corporation that I were the head of, that if someone directed employees of that corporation to falsify documents of the corporation so as to get repaid for bribery money, that that person has not one problem with the law but two problems, a second problem, and that is with the corporation. That is a responsibility that you have to bear as well.

Mr. Chairman, I raised a whole list of questions of the difference in application of the law and contracting to this, the largest defense contractor in the country, to other smaller contractors and those who would like to be contractors. We have gotten through maybe two or three of those questions. I think it is appropriate at this point to take a break and to request that the individuals here from General Dynamics come back to get to the other parts of the iceberg that we have only tipped today.

Mr. DINGELL. The Chair observes, gentlemen, that we have kept you here long. We thank you for your assistance.

The Chair will advise that the staff will be instructed to make the necessary insertion of records and papers into the proceedings at the appropriate places.

We will adjourn at this time. We will anticipate that it will be necessary to have you return to the committee at some time in the future, which the staff will try to fix in a fashion which will be mutually convenient.

Gentlemen, we thank you for your assistance.

The committee will stand in recess until the call of the Chair.

[Whereupon, at 2:45 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[The above mentioned material follows:]

[illegible]

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

[illegible]

July 25, 1984

The Honorable John Lehman
Secretary of the Navy
Department of the Navy
The Pentagon
Washington, D. C. 20350

Dear Secretary Lehman:

In accordance with the provisions of the Rules of the House, the Subcommittee on Oversight and Investigations has been conducting an investigation into various allegations made by P. Takis Veliotis, former Executive Vice President and Member of the Board of Directors of the General Dynamics Corporation. In the course of this investigation, the Subcommittee staff has uncovered information that indicates that Electric Boat officials provided apparently questionable gratuities to a naval officer who played a major role in managing the contracts for the 688 attack and Trident submarines at the Electric Boat Division of General Dynamics.

As you know, Clause 54 of the 688 contract (similar clauses are included in all Navy shipbuilding contracts) provides for the termination of the contract upon a finding that "gratuities (in the form of entertainment, gifts, or otherwise) were offered or given by the Contractor ... to any officer or employee of the Government with a view toward securing a contract or securing favorable treatment with respect to the awarding or amending, or the making of any determinations with respect to the performing of such contracts; provided, that the existence of the facts upon which the Secretary or his duly authorized representative makes such findings shall be in issue and may be reviewed in any competent court."

The Subcommittee has obtained various internal General Dynamics documents which indicate that Mr. Gordon McDonald, the General Manager at Electric Boat, as well as an Executive Vice President of General Dynamics and a Member of the Board of Directors, directed a subordinate to buy and deliver expensive jewelry to the office of a naval officer in Washington. The subordinate claimed that Mr. McDonald told him that he might have to commit perjury if asked about the jewelry.

The documents also indicate that the books and records of the Electric Boat Division were falsified in order to disguise the jewelry as retirement watches. We have been told that this was not an isolated incident.

On August 9, 1977, Mr. McDonald certified the following to Arthur Andersen and Company, the General Dynamics auditors:

> This will inform you that, to the best of our knowledge, the division has no "sensitive" receipts or disbursements or any unrecorded cash or non-cash funds out of which such payments might be made. "Sensitive" receipts and disbursements, whether or not illegal, include: (a) receipts from or payments to government officials or employees ...".

On February 10, 1978, P. Takis Veliotis informed Mr. David S. Lewis, Chairman of the Board and Chief Executive Officer of General Dynamics, about the gratuities to the naval officer and other questionable payments. Mr. Veliotis memorialized their conversation in a February 15, 1978 memorandum to Mr. Lewis. Mr. Lewis has confirmed the substance of the memorandum to the Subcommittee. Mr. Lewis admits he took no action against any General Dynamics employee and did not report this incident to the Navy, the auditors, or the Securities and Exchange Commission.

General Dynamics officials have informed the Subcommittee that they provided these gifts to the naval officer because "he was in a powerful position and could have done us a lot of damage."

Therefore, it appears that General Dynamics officials arranged the purchase and delivery of substantial gratuities to a naval officer who played a major role in managing multi-billion dollar contracts at Electric Boat. These General Dynamics officials caused the books and records at Electric Boat to be falsified in order to conceal the gratuities. The Chairman of the Board of General Dynamics was told about these gratuities and took no corrective or remedial action.

On its face, this conduct appears to be a clear and knowing violation of Clause 54 of the 688 attack submarine contract which calls for the termination of that contract as well as the Trident contract at Electric Boat.

Please inform me by Friday, August 3, 1984, concerning the actions you plan to take to enforce Clause 54 or otherwise make inquiry about General Dynamics and the apparent violation of their Navy contracts. Please contact Michael Barrett or Peter Stockton of the Subcommittee staff at 225-4441 to arrange for access to documents and other information.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD:PSdb

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DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

3 August 1984

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This is in reply to your 25 July letter concerning allegations that General Dynamics Corporation provided valuable gifts to a senior naval officer with responsibilities for SSN 688 and TRIDENT submarine programs.

The Navy and Justice Department have both opened investigations into these allegations. In response to your offer to review relevant material in your possession, Ms. Margaret Olsen of the Navy Office of General Counsel will contact your staff today.

Once our investigation is completed you may be assured we will take whatever action is warranted by the evidence. I'll keep you informed.

Sincerely,

John Lehman
John Lehman
Secretary of the Navy

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U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

August 8, 1984

The Honorable John S. R. Shad
Chairman
Securities and Exchange Commission
450 Fifth Street, N. W.
Washington, D. C. 20549

Dear Chairman Shad:

Enclosed is a July 25, 1984 letter to Secretary John Lehman of the Navy, outlining what appears to be a clear violation of a Navy contract by General Dynamics. Also enclosed are several internal General Dynamics' memoranda which document this violation. These documents raise questions concerning matters within the jurisdiction of the Securites and Exchange Commision (SEC).

It appears that in documents supplied by the SEC's staff, General Dynamics has made no disclosure of these gratuities or other questionable payments (with the exception of Lester Crown's role in bribing state legislators in Illinois -- Crown is a member of the Board of Directors of General Dynamics).

Although these documented gratuities appear to be small on the surface, given the overall cost of the gratuities, the General Dynamics staff time involved, etc., the amount may become substantial. Attorneys for General Dynamics have conducted an internal investigation of similar gratuities at Electric Boat, but have not supplied the Subcommittee with the written results of that investigation. That will be made available to the SEC upon receipt of the results.

On July 12, 1984, the Subcommittee requested a General Accounting Office (GAO) audit of various accounts at Electric Boat, General Dynamics Headquarters in St. Louis, Missouri and the Washington Office of General Dynamics, in an attempt to determine the extent of questionable payments and gratuities at General Dynamics. That audit and investigation should be underway this week. We will inform you of the results of that audit as they become available.

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The documented gratuities are clearly material for disclosure purposes because, according to the 688 and Trident contracts, the contracts can be terminated if evidence is developed that indicates that gratuities have been offered or given to Government employees. If these contracts are cancelled because of these violations, it could mean a loss of as much as $5 billion in contracts at Electric Boat. In additiion, significant penalties can be assessed against General Dynamics. The Navy could to take over the yard and either manage it directly or hire a contractor to manage the yard.

If these gratuities had been discovered by the Navy in 1977, resulting in the termination of the contracts at that time, the loss of $10 billion worth of contracts plus penalties to General Dynamics could have resulted.

Another matter of concern to the Commission is the deliberate and obvious falsification of the books and records of Electric Boat to conceal the gratuities.

Participation and knowledge of these gratuities involved the highest levels of management at General Dynamics, including an executive vice president of General Dynamics, and a member of the board, as well as the the Chairman of the Board and Chief Executive Officer of the corporation. This raises serious questions about management integrity at General Dynamics which is also of concern to the SEC.

Please inform the Subcommittee by August 21, 1984 as to what action you plan to take on this matter. If your staff has any questions regarding this matter, please contact Mr. Michael Barrett or Mr. Peter Stockton of the Subcommittee staff at 225-4441.

Thank you for your cooperation in this matter.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD:PSdhdb

Enclosures

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
ENFORCEMENT

August 13, 1984

The Honorable John D. Dingell
Chairman
Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

Re: General Dynamics Corporation

Dear Chairman Dingell:

Chairman John S. R. Shad gave me your August 8 letter to him, which he received today.

During the past several months we have had conversations with the Subcommittee staff, particularly Peter Stockton, and with members of the General Accounting Office regarding this matter. The Subcommittee and GAO staff have had access to and have copied documents in our files regarding the Commission's investigations of General Dynamics. The documents you provided with your August 8 letter will be studied, and we will respond to you.

Because the Division of Enforcement staff person most familiar with the General Dynamics investigation is on his summer holiday, it will be impossible to respond to you by August 21. When that person returns to the office on August 27, I will ask him to review the materials you provided us and any other materials he deems necessary to make an informed judgment.

Thank you for your August 8 letter and the 34 pages of materials accompanying your letter.

Very truly yours,

John M. Fedders

John M. Fedders
Director

cc: Chairman John S. R. Shad
Commissioner James C. Treadway
Commissioner Charles C. Cox
Commissioner Charles L. Marinaccio
Commissioner Aulana L. Peters
(with copy of incoming letter and
attached materials)

[illegible]

JOHN D. DINGELL, MICH., CHAIRMAN

ALBERT GORE, JR., TENN.
JIM SLATTERY, KANS.
GERRY SIKORSKI, MINN.
JIM BATES, CALIF.
JAMES H. SCHEUER, N.Y.
JAMES J. FLORIO, N.J.
EDWARD J. MARKEY, MASS.
DOUG WALGREN, PA.

JAMES T. BROYHILL, N.C.
BOB WHITTAKER, KANS.
THOMAS J. BLILEY, JR., VA.
MICHAEL G. OXLEY, OHIO

MICHAEL F. BARRETT, JR.
CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

ROOM 2323
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 225-4441

August 10, 1984

Mr. David Lewis
Chairman of the Board
General Dynamics
Pierre Laclede Center
St. Louis, Missouri 63105

Dear Mr. Lewis:

When we met in my office on May 30, 1984, you expressed a willingness to cooperate with the Subcommittee on Oversight and Investigations in its investigation of various matters involving General Dynamics that are within the jurisdiction of this Subcommittee. That promise of cooperation is certainly not being fulfilled by your subordinates. I will outline several instances so that there is no confusion on your part as to what is occurring.

On July 12, 1984, I asked the General Accounting Office to provide auditing assistance to the Subcommittee to review various accounts at selected divisions and offices of General Dynamics because the Subcommittee had received evidence and allegations of questionable payments. Your staff was fully aware of this impending audit. On August 2, 1984, the Subcommittee staff, as a first step in that audit, interviewed Mr. William Pedace, an Electric Boat official who purchased and delivered questionable gratuities to Admiral Rickover. Both prior to and during that interview, the Subcommittee staff made it clear that the audit was scheduled to begin the following week. Mr. John Stirl, an attorney in the General Dynamics Washington office, at the request of the Subcommittee staff, assigned contact points at the various divisions and offices of General Dynamics to facilitate the audit.

On Friday, August 3, 1984 the Subcommittee staff called the assigned contact at Electric Boat to give him a list of the General Dynamics personnel that the Subcommittee staff wanted to interview and informed him of the staff personnel who would be visiting Electric Boat on Tuesday, August 7, 1984. The only problem he raised was the fact that he was going on vacation. I must say I was incredulous to learn later of a letter sent from an Electric Boat attorney, Mr. Merle Smith, to the local Defense Contract Audit Agency (DCAA) resident auditor directing him not to cooperate with the Subcommittee staff on any subjects relating to Electric Boat. In this letter, he claims he did not know the identity of the GAO auditor who had been assigned to this Subcommittee when this auditor had been specifically identified by the Subcommittee staff in a phone conversation with the attorney on Friday. The GAO representative also had a letter of authorization signed by me. I will be curious to hear from you what authority your attorney believes he has to tell a government agency not to cooperate with a Congressional Committee.

Later, on Monday, August 6, 1984, the Subcommittee staff was informed by Mr. Stirk that General Dynamics had made a decision to refuse to allow the Subcommittee staff to conduct interviews of various General Dynamics employees and to audit the identified accounts. Part of the reason given by Mr. Stirk was that there could be some embarrassing payments to government officials in those accounts. Let me repeat, the point of the audit is to follow up on allegations and evidence of questionable payments and gratuities. Mr. Stirk's "concern" over embarrassing payments is certainly no reason to delay the investigation. To the contrary, allegations that there may have been embarrassing payments to government officials is all the more reason to pursue the necessary inquiries in a timely manner.

On August 9, 1984, Mr. Robert H. Duesenberg, General Dynamics Vice President and General Counsel, and other corporate officials and attorneys, met with the staff of the Subcommittee. Although Mr. Duesenberg and Mr. Stanley Brand, General Dynamics outside counsel, did not question the Subcommittee's jurisdiction or authority to conduct this investigation, they nevertheless requested a written statement of the Subcommittee's jurisdiction, and an initial list of General Dynamics personnel at Electric Boat, Washington, and St. Louis that the Subcommittee staff wants to interview, and an initial list of accounts that the Subcommittee wants to begin reviewing and auditing.

The Subcommittee on Oversight and Investigations has responsibility for oversight of agencies, departments, and all programs within the jurisdiction of the full Committee and for conducting such investigations within such jurisdiction. The Committee on Energy and Commerce has jurisdiction to include interstate and foreign commerce, generally, and securities and exchanges. This jurisdiction, and the responsibility for its oversight, are authorized by Rules X and XI of the Rules of the House of Representatives, 98th Congress. Enclosed for your reference is a Subcommittee publication with relevant portions of the Rules included therein.

The Subcommittee is conducting an initial investigation into facts and allegations concerning the participation of General Dynamics in improper and illegal payments, gratuities, gifts, misuse of corporate aircraft, and similar matters.

The time frame that we are initially interested in is January 1, 1974 through June 30, 1984. We want the staff to start the audit immediately on the records that are currently available. We would appreciate it if you would make suitable space and other arrangements, including the copying of documents, available to my staff. We also request that you direct your personnel in all locations not to alter or destroy any documents that may be within the scope of this Subcommittee's investigation.

Attached is the requested initial list of personnel and accounts at the Groton, St. Louis and Washington offices of General Dynamics that I have directed the Subcommittee staff to interview and audit. This list will be augmented and updated as the inquiry proceeds.

On July 9, 1984 Mr. Thomas Edwards, of Casner, Edwards and Roseman in Boston, briefed me in my office on the results of an internal investigation you had ordered to determine the extent of the gratuities and questionable payments made in various General Dynamics offices and divisions. It appears from the briefing that Mr. Edward's investigation had been carefully limited to gratuities offered and delivered to Admiral Rickover. As you know, that is not the limit of the Subcommittee's inquiry. I asked Mr. Edwards for a written report of his investigation. In staff discussions with your attorneys it is unclear whether you have directed Mr. Edwards not to put his findings in writing or if he has refused to do so. The Subcommittee would appreciate a written report on this subject as soon as possible.

At that same meeting on July 9, 1984, Mr. Edwards claimed he had interviewed personnel at Electric Boat, the Washington office and possibly other divisions of General Dynamics concerning their knowledge of possible illegal gratuities or questionable payments. He advised he had found no additional questionable payments or gratuities. I asked him to certify that no questionable payments had been made in those divisions and offices. He indicated he would determine what he could certify. After numerous follow-up requests from the Subcommittee staff, Mr. Edwards still has not provided any certifications. It is not clear to me why it is so difficult for Mr. Edwards to respond. Please look into this matter and direct Mr. Edwards to supply these certifications without further delay.

The scope of the Subcommittee's interest continues to grow as new roadblocks are erected. Your assistance in insuring complete cooperation will enable us to proceed with our inquiry more quickly and to conclude it expeditiously.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD: PSlo

Enclosures

ATTACHMENT

INITIAL REQUEST FOR RECORDS AND PERSONNEL

At the General Dynamics/Electric Boat Division, access is required, but not limited to, the following personnel:

1. Fritz Tovar, General Manager
2. Art Barton, Vice President, Finance and Strategic Planning
3. L. Tognari, Director of Administration
4. Bob Renn, Comptroller
5. Chuck Kruse, Cost Accounting
6. Wayne Aguiar, Chief, General Accounting
7. Bill Wilcox, Accounts Payable
8. Mike Malvini, Audit Liaison
9. Jack Curry, Corporate Internal Audit
10. Bill Fitzgerald, Nuclear Engineering Department
11. Joe Pierce, former Electric Boat General Manager
12. Bill Jones, former Electric General Manager
13. Bob Chappel, former Electric Boat Executive
14. Gary Grimes, former Electric Boat Executive, currently General Manager, Quincy

Access is also required to various expense accounts and all supporting documentation including, but not limited to, the following:

1.	Employee Moving Expense	(2989)
2.	Travel - Relocation Costs	(6690)
3.	Advertising - Exhibit	(7593)
4.	Advertising - Institutional	(7594)
5.	Selling Costs	(7595)
6.	Contributions - Educational	(7791)
7.	Contributions - Other	(7792)
8.	Donated Material	(7793)
9.	Miscellaneous Expense - Entertainment	(7990)
10.	Miscellaneous Expense - Scholarships	(7992)
11.	Miscellaneous Expense - Other	(7993)
12.	Provision for Bad Debts	(7691)
13.	Corporate Office Allocation	(8790)
14.	Travel Expense	(6601)
15.	Professional Services - Legal	(7101)
16.	Professional Services - Consultant	(7103)
17.	Other Purchased Services	(7201)
18.	Miscellaneous Expense - Other	(7903)

At the General Dynamics corporate headquarters in St. Louis, access is required, but not limited to, the following accounts and all supporting documentation:

1.	Travel	(814000)
2.	Professional Services and Consultant Fees	(87104)
3.	Professional Services and Consultant Expenses	(87103)
4.	Individual Memberships	(81700)
5.	Charitable Contributions	(87701)
6.	Promotional Material	(87402)
7.	Miscellaneous Expenses	(87900)
8.	Travel	(81401)
9.	Relocation	(81503)
10.	Individual Memberships	(81701)

The Subcommittee staff also requires access to the Corporate Aircraft log books including passenger logs and flight manifests. In addition, we would need to interview personnel who have cognizant responsibility over the following areas:

1. Accounts Payable
2. Travel; Corporate and Division
3. Corporate Flight Department; including pilots and flight attendents

4. Travel and Entertainment Budget for General Dynamics' Washington Office

It will also be necessary, as an initial contact, to meet with Mr. Billy Kellum at General Dynamics' Washington Office.

For your additional information, I have authorized the following Subcommittee staff to conduct the aforementioned investigation on behalf of this Subcommittee:

Michael Barrett
Peter Stockton
Jeffrey Hodges
Paul Bollea
Kurt Schildknecht
Roger Hamilton
Arthur Brouk

You will be notified of any additions to aforementioned Subcommittee staff.

GENERAL DYNAMICS CORPORATION
Pierre Laclede Center
St. Louis, Missouri 63105

20 August 1984

Robert H. Duesenberg
Vice President and General Counsel

314-889-8319

Mr. Michael F. Barrett, Jr.
Chief Counsel/Staff Director
U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the Committee on Energy and Commerce
Washington, D.C. 20515

VIA FEDERAL EXPRESS

Dear Mr. Barrett:

I regret that it was not possible to meet with Mr. Stockton last week while I was in Washington. What I wanted to convey to him is that the Company wants to proceed as outlined in the attachment to Chairman Dingell's letter of August 10 regarding its investigation into allegations concerning improper and illegal payments, gratuities, gifts, misuse of corporate aircraft and similar matters at General Dynamics. In addition, I wanted to work out the logistics.

I would suggest that the Committee, at its pleasure, contact personnel at Electric Boat or Washington to arrange for the reviews they want to do at those locations. The contact at Electric Boat is Mr. Merle Smith, 203-446-5090 and in the Washington office it is Mr. Chris Hansen, 703-553-1248. Here in St. Louis the review has been underway since 10 August; in any event the contact is Mr. Ray Crain, Corporate Director-Government Contracts Settlements, 314-889-8761. Our Washington and Electric Boat representatives will carry out any necessary coordination through Mr. Crain, and your staff at any time should feel free to call me.

Each location will set up an office for your investigators. When records are requested, we will make them available in the office and assign a corporate representative to be of assistance. Some advance notice should be given so that there is time to pull the desired files.

The contacts have been instructed to permit copying. The easiest procedure will be for your investigators upon identifying documents which they want reproduced to mark them and ask the corporate representative to make the copies. This will facilitate the Company making a copy for itself.

Concerning interviews of personnel identified in the attachment to your letter, we ask only that you give advance notice sufficient to permit contacting the employee. A counsel for the Company will be available and present for each interview.

If there is any other way in which we can assist, we would be happy to respond to your request.

Very truly yours,

GENERAL DYNAMICS CORPORATION

Robert H. Duesenberg

RHD/fg

xcs: Jeffrey Hodges✓
Peter Stockton

NINETY-EIGHTH CONGRESS

JOHN D. DINGELL, MICH., CHAIRMAN

ALBERT GORE, JR., TENN.
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U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

ROOM 2323
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 225-4441

September 25, 1984

The Honorable John S. R. Shad
Chairman
Securities and Exchange Commission
450 Fifth Street, N. W.
Washington, D. C. 20549

Dear Chairman Shad:

As you know, the Subcommittee on Oversight and Investigations has been investigating various issues involving the General Dynamics Corporation. Many of these issues involved the adequacy of their financial disclosures to the Securities and Exchange Commission (SEC).

Information has come to the attention of the Subcommittee that P. Takis Veliotis, a former Executive Vice President and member of the Board of Directors of General Dynamics, secretly tape-recorded several phone conversations with the Chairman of the Board of General Dynamics and other top General Dynamics officials.

One is a November 30, 1977 tape of a conversation involving the Chairman of the Board, David Lewis, and the Chief Financial Officer, Gorden McDonald, with Mr. Veliotis, in which they suggest issuing a knowingly false press release on the delivery schedule and cost status of the Trident Ballistic Missile Submarine Program to "stop the slide in General Dynamics stock."

In another taped conversation in 1981, the Chairman of the Board suggests that Mr. Veliotis stop a subordinate at Electric Boat from completing a new cost-to-complete study on the 688 Attack Submarine Program (the contract at that point was overrun by at least $100 million) because the auditors may discover the report and General Dynamics would have to disclose the information to the SEC.

These tapes on the surface appear to involve violations of various SEC reporting requirements and raise serious questions concerning the management integrity of the Corporation. I suggest that the SEC investigate these matters immediately.

For further information please contact Michael F. Barrett, Jr., Chief Counsel and Staff Director, or Peter Stockton of the Subcommittee staff.

Thank you for your continued cooperation in this matter.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD:PScm

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
ENFORCEMENT

October 2, 1984

RECEIVED
OCT 3 1984
Subcommittee on
Oversight and Investigations

The Honorable John D. Dingell
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D. C. 20515

Re: General Dynamics Corporation

Dear Mr. Chairman:

Chairman John S. R. Shad has handed me your September 25 letter regarding the Subcommittee on Oversight and Investigations inquiry involving General Dynamics Corporation. We appreciate your calling the events set forth in your letter to our attention.

I hope you and your staff will undertake to provide us all documents and information in your possession regarding this matter.

Today, six of my colleagues and I met with the general counsel and the chief financial officer of General Dynamics Corporation, two representatives from Arthur Andersen & Co. -- General Dynmamics Corporation's independent public accountants, and two partners of the law firm of Covington and Burling -- counsel to General Dynamics Corporation. Our inquiry continues.

Very truly yours,

John M. Fedders

John M. Fedders
Director

cc: Chairman John S. R. Shad
Commissioner James C. Treadway, Jr.
Commissioner Charles C. Cox
Commissioner Charles L. Marinaccio
Commissioner Aulana L. Peters

[illegible]

[illegible]

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

October 5, 1984

The Honorable John Lehman
Secretary of the Navy
Department of the Navy
The Pentagon
Washington, D. C. 20350

Dear Secretary Lehman:

On July 25, 1984, I advised you that the Subcommittee on Oversight and Investigations had been conducting an investigation into various allegations made by P. Takis Veliotis, former Executive Vice President and Member of the Board of Directors of the General Dynamics Corporation. This investigation has been broadened to include matters pertaining to the use of corporate aircraft by General Dynamics.

Subcommittee staff has found that top General Dynamics officials each year have been charging millions of dollars to the Federal Government for personal trips on their corporate jets to various destinations around the country that do not relate to Government business. For example, David Lewis, Chairman of the Board, in 1982 alone took 14 trips on the corporate jets based in St. Louis to his farm in Albany, Georgia. This is not necessarily the total of Mr. Lewis' trips; the staff is in the process of auditing the use of eight other corporate jets. The staff also found that pilot reports of several of Mr. Lewis' trips to Albany were deliberately altered after the pilot signed them to make it appear that the flights were training flights which perhaps could be more legitimately charged to the Government. Since the mid-1970's, the Defense Contract Audit Agency (DCAA) has repeatedly requested General Dynamics to retain the list of passengers on these flights so it could determine whether they involve Government business. In the face of these requests, General Dynamics continued to destroy passenger lists immediately after the flights and continued to charge these flights to the Government. It is not clear why the Navy has not brought fraud charges against General Dynamics for knowingly charging millions of dollars to the Government for numerous flights which have nothing at all to do with Government business.

It is exceedingly disturbing that the nation's largest defense contractor apparently sees nothing wrong with misusing the taxpayers' money in such a blatant fashion. Such abuses must not be allowed to continue. Accordingly, the Subcommittee requests that the Navy promptly initiate a full-scale investigation of this apparent fraud against the Government. The Subcommittee staff will make available for review by Navy investigators documents that may assist them in the investigation. The Subcommittee would also like to be kept apprised as to the progress of the Navy's investigation.

Directly related to the apparent misuse of corporate aircraft is the Subcommittee's understanding that General Dynamics, since 1978, has charged the Government for approximately $22 million, including taxes, to operate its corporate air fleet. The Subcommittee further understands that approximately $10.5 million of this amount has already been received by General Dynamics, notwithstanding the fact that these charges have been questioned by the DCAA and by Government contracting officers. This is most disturbing. It is not readily apparent why the Government should pay a corporation anything when there is a question as to the propriety of the charges being made. I would appreciate being advised as to how this could occur. In the meantime, the Subcommittee believes the Navy should immediately consider whether to disallow the approximately $22 million in corporate aircraft charges that have been submitted by General Dynamics.

Michael Barrett, Chief Counsel and Staff Director, and Peter Stockton of the Subcommittee staff are available to assist the Navy in this matter. They can be reached at 225-4441.

Sincerely,

John D. Dingell

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD:PSdb

BEST COPY AVAILABLE

[illegible]

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350

31 October 1984

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight and
  Investigations of the Committee on Energy
  and Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Dingell:

Thank you for your letter of October 5, 1984, concerning General Dynamics Corporation charging the use of corporate aircraft to government contracts.

Prior to your letter, on September 27, 1984, the Naval Investigative Service was requested to open a case to look into possible improprieties in this matter. The Department of the Navy has and will continue to take aggressive action to resolve this issue.

A final decision disallowing a portion of the $22 million is pending, and will be made based on the amount determined by the Defense Contract Audit Agency to be valid, substantiated charges. Provisional billing and payment to include estimated indirect expenses were agreed to before a final overhead claim or an audit was made. As the cost to operate corporate aircraft is in overhead, a portion of these costs has been paid.

You question how it could occur that we already paid $10.5 million of the questioned amounts. The amount provisionally paid, which is in the vicinity of $6 million, was paid under the terms of the contract. Ultimately General Dynamics will be required to refund to the Government any excess monies paid.

The larger issue as to the appropriateness of such widespread use of corporate aircraft properly chargeable to Defense contracts is a matter involving the Defense Acquisition Regulations.

Sincerely,

John Lehman

John Lehman
Secretary of the Navy

NINETY-EIGHTH CONGRESS

JOHN D. DINGELL, MICH., CHAIRMAN

ALBERT GORE, JR., TENN.
JIM SLATTERY, KANS.
GERRY SIKORSKI, MINN.
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U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

ROOM 2323
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 225-4441

November 16, 1984

The Honorable John Lehman
Secretary of the Navy
Department of the Navy
The Pentagon
Washington, D. C. 20350

Dear Secretary Lehman:

On July 25, 1984, I sent you a letter which outlined documented evidence that top officials of the General Dynamics Corporation had provided gifts and gratuities to a senior Naval officer who played a major role in the oversight and administration of contracts for the SSN 688 Class and TRIDENT submarines at the Electric Boat Division of General Dynamics. I also offered to make available documents and other information in the possession of the Subcommittee on Oversight and Investigations.

I pointed out that Clause 54 of the contract for the first seven SSN 688's and similar clauses in other SSN 688 and TRIDENT contracts provide for the termination of those contracts if it is found that gratuities are offered or provided to officers or employees of the government by the contractor. In this particular case, Admiral Hyman Rickover, USN, Ret., accepted gratuities in the form of gifts from a contractor he was responsible to oversee -- the Electric Boat Division of the General Dynamics Corporation.

The Subcommittee staff met with a representative of the Navy General Counsel's office in early August and provided documentation of these gifts and shared the results of the Subcommittee's interviews, including an interview with Admiral Rickover -- who does not deny receiving the gifts.

Since that time, the Subcommittee staff has shared the results of numerous interviews and documents with the Naval Investigative Service (NIS) and the Navy's General Counsel Office, including interviews of David S. Lewis, Chairman of the Board and Chief Executive Officer, Gorden MacDonald, Chief Financial Officer, and other General Dynamics officials.

The Subcommittee staff has completed their investigation of the gratuities provided to Admiral Rickover. After reviewing the results, it is clear that the gratuity clauses of both submarine contracts at Electric Boat were flagrantly violated. I outlined the provisions of Clause 54 in my July 25th letter. I further understand that three elements must be present to constitute a violation under the gratuities clause:

(1) the contractor must have a contract which contains the gratuities clause;

(2) the contractor ... must have offered or promised a gratuity to an officer, official or employee of the government; and

(3) the gratuity must have been offered or given with the intent to obtain a contract or favorable treatment in the awarding or amending, or the making of determinations concerning the performance, of a contract.

It is clear that all three elements are present with respect to the General Dynamics/Admiral Rickover affair. Let me elaborate:

— Gorden MacDonald, Chief Financial Officer and Member of the Board of Directors of General Dynamics, and Acting General Manager of Electric Boat, in July and August 1977 arranged the purchase of two pieces of valuable jewelry for Admiral Rickover. MacDonald directed an Electric Boat employee to arrange for the payment of the jewelry and for the delivery to Admiral Rickover. MacDonald advised he also directed the employee not to tell anyone about the gifts because "it could be very embarrassing to me and to General Dynamics." The Electric Boat subordinate admits delivering the gifts to Admiral Rickover and falsifying the books of Electric Boat to cover up the purchase of the jewelry.

-- Admiral Rickover does not deny receiving gifts from Electric Boat, including the jewelry. The Subcommittee believes that there is convincing evidence that the two jewelry incidents are not the only valuable gifts of a personal nature that Electric Boat provided for Admiral Rickover. While the extent and cost of the gifts is irrelevant to a finding of a violation of the gratuities clauses, the cost of the gifts and their delivery to Admiral Rickover is substantial.

-- MacDonald claims that he informed David Lewis of the jewelry gifts, either prior to or immediately after they were provided. Lewis claims he does not recall being so informed. However, Lewis does admit that he was informed of the gifts about six months later in early February 1978 and did not inform the Navy or the Securities and Exchange Commission. In the course of providing these gifts, General Dynamics officials falsified the books and records of the Corporation to cover up the illegal payments which could constitute a violation of Federal securities laws.

-- Both Lewis and MacDonald admit that they knew the provision of gifts to government employees was illegal and contrary to corporate policy. Both claim the gifts were provided because "Rickover was in a key position and could have done the Corporation a lot of damage." Thus, Lewis, MacDonald and other officials may have committed a possible felony with the intent to secure favorable treatment from a senior Navy official.

As I mentioned earlier, the NIS, at your request, has thoroughly investigated this matter. They have interviewed many of the same witnesses and reviewed many of the same documents as the Subcommittee staff and, I understand, have found a totally consistent set of facts. Therefore, I question why you have not taken aggressive action to terminate the SSN 688 Class and TRIDENT contracts at Electric Boat for violation, at a minimum, of the gratuity clauses. Other actions, of course, should be taken against these General Dynamics officials who may have broken the law by providing the gifts and who did nothing to stop or to report this illegal practice. The Subcommittee understands that the Corporation itself could be held criminally liable for the actions of these officials.

The Subcommittee has a continuing audit underway at General Dynamics' headquarters in St. Louis and at several divisions of General Dynamics, including Electric Boat, to follow up on allegations of questionable payments, fraudulent charges against the government, and the provision of illegal gratuities and entertainment to military officers and other government employees. This audit has been severely hampered by a lack of documentation. Relevant results of these audits have been and will continue to be made available to you and the Naval Investigative Service as they become available.

I was surprised to learn that the gratuities clauses have been in shipbuilding contracts for 32 years and have never been enforced against a major contractor of the Navy. On the other hand, we have learned of numerous examples of the Department of Defense and the military services taking aggressive and timely action against small contractors for gratuities that would pale in the face of General Dynamics' behavior in this matter. In one case, a small contractor in Texas provided a $200 television set to a government employee along with an annual subscription to Playboy. In short order, the contractor was debarred from further government business for three years and a grand jury is currently investigating the contractor's actions. In another case, in August 1983, the president of a small DOD contractor located in Michigan pled guilty in Federal court to a felony charge arising from a payment of a gratuity to a public official. We understand that there have been a number of other prosecutions for offering gratuities. Is General Dynamics somehow worthy of different treatment?

If there was ever a time for the Navy to get tough and to enforce a contract, this is the time. The facts of the violation do not appear in dispute. Top management of the Corporation personally and knowingly violated the contract and the law and attempted to cover up their actions. Available evidence strongly indicates that General Dynamics as a corporation and as a major defense contractor had the intent necessary to violate the contract and the law.

The termination of these contracts will have little, if any, impact on the production of the SSN 688 and TRIDENT submarines being built at Electric Boat which are apparently essential to the national defense. As you know, the default clause included in shipbuilding contracts allows the government to proceed with the completion of the vessels at the contractor's plant under these circumstances. It would appear that the Navy has at least two options. The Navy could use the yard's facilities or the Navy could contract with another contractor to use the yard's facilities. In any event, under the default provisions, the Navy would have the right to charge General Dynamics for any costs in excess of the contract price.

As you are aware, General Dynamics was delighted to buy the Army's M-1 tank program from the Chrysler Corporation. I am sure that another defense contractor would be delighted to take over the management of the SSN 688 Class and TRIDENT programs at Electric Boat. This action would not adversely affect the production of these important weapons systems and would have no adverse impact on employment because only a very few top officials would not continue to be employed at the Groton yard. Such positive actions by the Navy would most assuredly have a significant effect on a handful of Electric Boat and General

Dynamics executives who participated in the violation of the contracts. I am certain that the signal sent by the Navy would cause other defense contractors to review their methods for doing business. Our defense posture and the interests of the American taxpayer will only benefit from courageous actions by the Navy at this time. The taxpayer will be relieved of the burden of unreasonable and improper costs embedded in Navy programs.

Please provide the Navy's plan for the immediate termination of the SSN 688 Class and TRIDENT contracts with Electric Boat, the barring of future Navy business with Electric Boat, and the timely and smooth transfer of management from Electric Boat. The Subcommittee requests that you consider the following issues in the development of the Navy's plan:

-- The management capability within the Navy that could be made available to manage the Electric Boat shipyard on an interim and long-term basis to ensure the uninterrupted production of the SSN 688 and TRIDENT programs.

-- The availability of private contractors with the capability of managing the yard at Groton on an interim and long-term basis.

-- An analysis of the relative effectiveness of the use of the default clauses in the submarine contracts, the Defense Production Act or other authority to effect a smooth transfer of management.

-- A report on the issue of awarding future contracts to Electric Boat prior to the transfer of management. I am specifically referring to the Navy's plan to award another TRIDENT to Electric Boat in the near future.

Please provide the requested information on December 7, 1984. If you have any questions regarding this request, please contact Michael Barrett or Peter Stockton of the Subcommittee staff. They can be reached on 225-4441. The Subcommittee will be holding hearings on this matter in the near future at which time you will be requested to testify personally concerning whatever actions you have taken to resolve this matter.

Sincerely,

John D. Dingell

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

THE SECRETARY OF THE NAVY
WASHINGTON, D. C. 20350

21 November 1984

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for your letter of November 16, 1984, concerning the Navy's response to allegations of improprieties between General Dynamics and Admiral Rickover. As you know, both the Navy and the Department of Justice have opened investigations into those allegations. The Navy very much appreciates the cooperation your staff has given the Naval Investigative Service as evidence has come into your hands. We shall keep you apprised of developments in the NIS investigation and I recommend you stay in touch with the Department of Justice regarding their investigation.

There is evidence that General Dynamics, Newport News, General Electric, and Westinghouse companies did in fact provide gifts and gratuities to Admiral Rickover. This evidence raises an issue of civil remedies, including action under the contract gratuities clause, and the possibility of criminal action. Appendix D of the Defense Acquisition Regulation, issued by the Department of Defense on 5 July 1952, establishes detailed procedures for a contractor to dispute evidence of gratuities. Based on the evidence obtained to date, I have directed that a board be convened to make findings and recommendations with regard to each of these companies and any others indicated by further evidence pursuant to these procedures. I will make the final decision regarding remedies if warranted based on these findings. Be assured that there will be no delays on the Navy's part in completing these findings of fact and that we will keep your Committee fully informed as we proceed.

The issue of criminal prosecution must be handled by the Justice Department and as in all such cases, we would take appropriate action upon criminal indictments and convictions if indictments and convictions were in fact to result from these investigations. The evidence to date involves actions prior to 1978. If the statute of limitations permits, and indictments were handed down, we would immediately consider the suspension and debarment of individuals and/or companies as appropriate under the Federal Acquisition Regulation 9.4.

Sincerely,

John Lehman

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

November 30, 1984

The Honorable John Lehman
Secretary of the Navy
Department of the Navy
The Pentagon
Washington, D. C. 20350

Dear Secretary Lehman:

Thank you for your letter of November 21, 1984. Because some substantial confusion is developing over the substance of my letter to you of November 16, 1984, I would like to clarify certain points with this communication.

First, your attempt to direct the spotlight away from the contract violations and apparent illegal actions on the part of General Dynamics and its officials by making it appear that Admiral Rickover is the target of the Subcommittee's concern is insensitive. The Admiral has served this Nation long and well and deserves fairer treatment.

Because of our Committee's responsibility for insuring the adequacy and effectiveness of the Federal securities laws, we must be seriously concerned about potential violations of those laws by the General Dynamics Corporation. These concerns are highlighted in the tape recordings recently released by Mr. P. T. Veliotis that are the main focus of the current Securities and Exchange Commission (SEC) and Department of Justice investigations. At the same time, integrity of management at General Dynamics is also of concern to the Subcommittee and the SEC and it should be of concern to the Navy as well. Violations of the gratuities clauses and statutes are not isolated episodes but bear directly upon management integrity. The contents of the tapes, the alleged bribery of a top official and member of the Board of Directors of the Corporation, the role of another member of the Board of Directors in a bribery scheme, allegations of other potential bribery incidents, your own Naval Investigative Service investigation of possible fraudulent charges against the government involved in the misuse of corporate aircraft at General Dynamics, the Department of Justice grand jury investigation and the SEC investigation should also be considered in your evaluation of the apparent violations of the contracts.

Let me make it clear that I am not prejudging the outcome of these criminal investigations -- but it should not require a criminal indictment or conviction for the Navy to be concerned about the integrity of management of the Nation's largest defense contractor prior to awarding additional contracts to the Corporation.

Considering the integrity of management issue, the two top officials of the Corporation who provided and had knowledge of the gratuities to Admiral Rickover in the 1977 incidents are still the two key officials running the Corporation. It appears from the evidence that they participated in a conspiracy to cover up violations of the contract and Federal law to hide this information from the Navy Department. These same two officials were involved in the taped conversations which are the key to the current criminal investigations by the Department of Justice and the SEC. The tapes, as you know, relate to withholding of information from the Navy and a multitude of other issues.

I am curious about the Navy's apparent lack of interest in contacting Mr. Veliotis or in contacting the Subcommittee to review over forty boxes of internal General Dynamics documents relating to the management of the submarine programs at Electric Boat that should be of intense interest to the Navy. Apparently, the Navy is more interested in Admiral Rickover than in determining whether General Dynamics is fit to be a contractor of the Navy. In the face of this evidence, I am disturbed about your remarks concerning the apparent violation of the submarine contracts at the same time you continue to award lucrative contracts to the Corporation. If a small contractor found itself in a fraction of this kind of trouble, I would guarantee you that it would never see another government contract.

I cannot accept your statement at your press conference on November 26 that the magnitude of the gratuities provided by General Dynamics executives at Electric Boat are not adequate to trigger the gratuity clause. What level of corruption is acceptable to you? At one point in the press conference, you talk about tens of thousands of dollars in gratuities; at another point, you talk about less than $1 million. Just what is your threshold of corruption? What kind of a signal does this give to other contractors?

On another subject, your letter of November 21 advised that you had established a board to evaluate the evidence of the violations of the submarine contracts. You said "I will make the final decision regarding remedies, if warranted, based on those findings." However, five days later, during your press conference, you predjudiced the board's findings before they had their first meeting by concluding that the magnitude of the gratuities did not warrant termination and that the only meaningful remedy under the gratuity clauses -- termination of the contracts at Electric Boat -- is "simply not sensible." What is the point of the board going through the motions if, by the exercise of command influence, you have foreclosed that option by giving the clear signal to the board of the outcome that you desire?

Your claim that you have evidence that three other Navy contractors gave gratuities to Admiral Rickover appears to be an attempt to change the subject by diverting attention away from the focus of the Subcommittee which is the actions of the General Dynamics Corporation. The Subcommittee is aware of evidence that other Navy contractors provided promotional items for Admiral Rickover's efforts to promote the nuclear Navy. This practice was never a secret to officials in the Navy. However, we are not aware of any evidence at this time that other contractors provided gratuities of a personal nature to Admiral Rickover like the jewelry, furniture, and other incidents at Electric Boat. As of three weeks ago, the Naval Investigative Service had no such evidence. If, indeed, you have such evidence of gratuities of this kind, we would certainly appreciate it if you would share that information with the Subcommittee because of the potential violations of Federal securities laws. Although I do not condone the practice, providing promotional items is a completely different matter and would hardly be construed as a potential criminal violation of the gratuities clauses or statutes. Combining this issue with the Electric Boat matter is disingenuous.

In both your letter and your press conference, you raised a question whether the statute of limitations may have run on potential criminal action. It is our understanding that the statute of limitations does not begin to run until a conspiracy to conceal evidence of wrongdoing is discovered -- which, in this case, would probably be May of 1984 when the Subcommittee received documents from Mr. P. T. Veliotis. As you know, there was a scheme at Electric Boat to falsify the books and records to cover up the existence of the gratuities. It would appear, then, that the statute of limitations may not be an insurmountable problem.

I noticed, with some amusement, your claim during your press conference that General Dynamics is delivering its latest submarines ahead of schedule and are underrunning their contracts. As you know from information available in your Department, the latest SSN 688s to be delivered by Electric Boat are three to four years behind their original schedule and are costing about two times their original contract price. This is substantially misleading. The reason that Electric Boat appears to be doing so well currently on cost and schedule is that the taxpayers have had to bail the company out and, in the process, both delivery schedules and price in these contracts were changed. The delivery schedules were extended on other occasions as well. At one point, Electric Boat was delivering identical submarines for $50 million more per copy than Newport News. In the latest bids, Electric Boat, as you noted in your press conference, was $23 million higher per boat than Newport News. It is misleading to allow the company to back date history and then to claim that Electric Boat is currently so well managed that we cannot disrupt this engine of efficiency by changing management now. Failure to meet budgets is a matter now under separate Subcommittee inquiry as part of our oversight of the accounting profession. The General Dynamics case provides the most glaring example of that classic government contract abuse -- the "rubber base line".

We will certainly take you up on your offer to keep the Subcommittee informed about the progress of the board. As your board proceeds with this matter, we would like to be supplied with copies of the hearing notices to the various companies, copies of transcripts of proceedings, interim recommendations, etc. We would also hope that you would direct that these proceedings be open to the public. If your board is not to be a rubber stamp for any prejudged conclusions, it would certainly be appropriate for the Navy to address the issues raised in my November 16 letter concerning the orderly transition of management from General Dynamics to the Navy or another contractor in the event that you conclude that termination of the contracts is warranted. We expect a meaningful response to that request by Friday, December 7, 1984.

I want to reiterate that the Subcommittee does not take this matter lightly. Hopefully, we can all cooperate in reaching a proper resolution of this matter rather than questioning motives and dedication to a strong national defense. The Subcommittee stands ready to provide whatever assistance we can.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

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U.S. Department of Justice

Criminal Division

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ENERGY AND COMMERCE
U.S. HOUSE OF REPRESENTATIVES

Office of the Assistant Attorney General

Washington, D.C. 20530

JAN 15 1985

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JAN 22 1985

Subcommittee on Oversight and Investigations

Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D. C. 20510

Dear Mr. Chairman:

I am writing concerning your November 30, 1984, letter to Secretary Lehman on the General Dynamics investigation. Specifically, I am interested in your statement that the Subcommittee is in possession of "forty boxes of internal General Dynamics documents relating to the management of the submarine program at Electric Boat" and your implied offer to the Navy to review these boxes.

After learning of your concern that the Navy had not viewed these forty boxes, I called your staff to inquire whether these were the same forty cartons which I had previously requested we be permitted to review for the Veliotis investigation. I was told they contained "no new information" and were only documents earlier gathered by the SEC.

Because I am determined that we do a thorough investigation, I want to renew my request that a Department of Justice attorney and FBI agent view these documents. Perhaps we already have this information available but I will not feel comfortable unless I know we have let nothing fall through the cracks. I know you share my concern in this regard.

I look forward to hearing from you soon. Enclosed for your reference are the previous letters on this subject.

Sincerely,

Stephen S. Trott
Assistant Attorney General
Criminal Division

Enclosure

BEST COPY AVAILABLE

Honorable John D. Dingell
Chairman, Subcommittee on Oversight
  and Investigations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your letter of July 12, 1984, regarding the General Dynamics matter. You have requested "access to all Justice Department and FBI files and all personnel who worked on the General Dynamics investigation which was closed in 1981." We will be unable to comply with your request for several reasons. For the most part the materials in our files reflect matters that occurred before the grand jury and therefore we are precluded by Rule 6(e) of the Federal Rules of Criminal Procedure from making disclosure to your subcommittee without a court order. But more directly to the point, significant aspects of this matter are presently the subject of an active criminal investigation stimulated by allegations recently received from P. Takis Veliotis. As you are aware, it is our long standing policy not to provide information regarding matters under active investigation. Until our active investigation has been completed, we will not be in a position to determine what precisely, if anything, we can share with your committee. Rule 6(e) unfortunately will continue to put most of this material beyond your reach.

Although I note your assertion that members of the subcommittee staff have been in contact with me and my staff seeking this information, the only request from your staff in this matter of which we have any record was from a Mr. Peter Stockton who, as I advised you by letter on June 14, 1984, sought a "two-way informal off-the-record" discussion with us about the Veliotis matter. Such an arrangement is obviously unacceptable.

I again call to your attention the request set forth in my letter dated June 14, 1984, a copy of which is enclosed, asking that your staff transmit any information or evidence it possesses relating to the General Dynamics/Veliotis claims matter to Mr. James J. Graham of the Department of Justice and Mr. William Imfeld of the FBI. My request was based on statements of your staff member Peter Stockton who claims to have information that would benefit the FBI and also claims to possess "40 cartons of documents" pertaining to this matter. Obviously, information and evidence your staff believes to be of value to this criminal investigation should promptly be made available to the FBI. Time is of the essence. I trust that you will instruct your staff to make that evidence available immediately.

Sincerely,

/s/ STEPHEN S. TROTT
Stephen S. Trott
Assistant Attorney General
Criminal Division

Enclosure

June 14 1984

Honorable John D. Dingell
Chairman, Committee on Energy and Commerce
House of Representatives
Washington, D.C. 20510

Dear Mr. Chairman:

On May 23, 1984, an individual identifying himself as Peter Stockton of your staff contacted a Special Agent of the Federal Bureau of Investigation and advised the Special Agent that he had information of benefit to the FBI concerning the Veliotis investigation. The staff member sought to have a "two-way informal off the record" discussion about the case. He indicated he had some "40 cartons of documents" pertaining to this matter.

As you may know, the Criminal Division recently conducted an interview in Athens, Greece, of Mr. Veliotis, a former Vice-President of General Dynamics. We are currently evaluating the information supplied to determine if sufficient evidence exists to reopen our investigation of claims filed with the Navy by General Dynamics Corp. If Mr. Stockton or anyone else on your staff possesses any information or evidence relating to the ship claims matter or obstruction of the earlier investigation, that information or evidence should be transmitted as soon as possible to James J. Graham, Deputy Chief, Fraud Section, Criminal Division, at 202-724-7340 and William Imfeld, Special Agent Supervisor, at 202-324-5682 who are responsible for the Veliotis matter.

Although, we are not prepared to discuss the details of this matter, Mr. Graham and Mr. Imfeld are prepared to review with your staff the information or evidence of criminal activity to determine if it has already been available to the investigation through the Navy, the Securities and Exchange Commission or other sources.

Sincerely,

Stephen S. Trott
Assistant Attorney General
Criminal Division

NINETY-EIGHTH CONGRESS

JOHN D. DINGELL, MICH., CHAIRMAN

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MICHAEL F. BARRETT, JR.
CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, D.C. 20515

ROOM 2323
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 225-4441

December 21, 1984

The Honorable Melvin Price
Chairman
Committee on Armed Services
2120 Rayburn House Office Building
Washington, D. C. 20515

Dear Mel:

For some months now, the Subcommittee on Oversight and Investigations has been investigating the thoroughness of a Securities and Exchange Commission (SEC) investigation conducted between 1978 and 1981 into the adequacy of the General Dynamics Corporation's reports to stockholders involving the massive cost overruns and contingent liabilities of the SSN-688 Class and TRIDENT submarine programs at the Electric Boat Division of General Dynamics. This investigation has led to the review of a number of issues involving the activities of General Dynamics within the jurisdiction of the SEC, including false books and records, potential violations of the Foreign Corrupt Practices Act, stock manipulation, the lack of adequate internal accounting controls, the apparent violation of provisions of the submarine contracts, the role of Arthur Andersen, the independent auditor, and a series of management integrity issues.

As you may know, P. T. Veliotis, a former Electric Boat Manager and Executive Vice President and member of the Board of Directors of General Dynamics, has supplied the Subcommittee with documents and tapes of recorded telephone conversations that relate to several of these issues. On August 8 and September 25, 1984, I wrote to the SEC supplying them with documents and the contents of tapes that relate to apparent criminal violations of the SEC statutes and rules. The SEC has opened a formal investigation of General Dynamics for possible violations of Federal securities laws.

The Subcommittee has also turned over information to the Secretary of the Navy. I understand that the Naval Investigative Service has initiated at least two criminal investigations of the General Dynamics Corporation.

I was informed recently that the Armed Services Committee will be holding hearings in early February on certain related General Dynamics matters involving shipbuilding contracts. In the course of our investigation, the Subcommittee staff has come across information concerning Navy shipbuilding contracts that we are not able to pursue effectively because of the limits of our jurisdiction -- in particular, the apparent criminal violations of Federal gratuities statutes and the apparent violation of the submarine contracts at Electric Boat. I am enclosing copies of my correspondence with the Navy and the SEC. I would be delighted to meet with you at any time to discuss the issues raised in this correspondence. I have also directed the Subcommittee staff to cooperate fully with your staff on those issues that appear to be within the jurisdiction of your Committee.

We will, of course, furnish your Committee with any additional information that comes to our attention which relates to your interests. We would appreciate it if you would likewise keep the Subcommittee informed of matters that pertain to our jurisdiction.

Messrs. Michael Barrett and Peter Stockton of the staff of the Subcommittee on Oversight and Investigations are available to meet with your staff to discuss more fully this issue. They can be reached on 225-4441.

Sincerely,

John

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

Enclosures

U.S. House of Representatives
COMMITTEE ON ARMED SERVICES
Washington, DC 20515

February 26, 1985

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FEB 27 1985

Subcommittee on
Oversight and Investigations

Honorable John D. Dingell
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
Room 2323 Rayburn HOB
Washington, D.C.

Dear John:

Thank you for your December 21 letter in which you described your Oversight and Investigations Subcommittee's investigation of the activities of General Dynamics Corporation within the jurisdiction of the Securities and Exchange Commission. I regret the delay in responding which was occasioned by the change in committee chairmanship.

I understand that representatives of our staff have met with Mr. Barrett and Mr. Stockton who briefed them on your investigation. I also understand that they agreed to provide information to our staff which might be relevant to any hearings conducted by our committee. This should be helpful since Chairman Bennett of the Seapower and Strategic and Critical Materials Subcommittee announced that his subcommittee intends to examine the Navy shipbuilding contract process to assure effectiveness in obtaining high quality at the lowest possible price. Mr. Bennett stated that his subcommittee hearing would examine the General Dynamics gratuities to Navy personnel and whether the Navy should seek to modify or terminate its existing submarine construction contracts with the Electric Boat Division of General Dynamics. The Seapower Subcommittee's inquiry will be supplemented by an ongoing inquiry being conducted by Chairman Nichols in the Subcommittee on Investigations.

I thank you for your assistance, particularly since we intend to pursue this case vigorously, consistent with all facets of our jurisdictional and related oversight responsibilities. I look forward to our continued cooperation in this matter.

Sincerely,

L. Aspin

Les Aspin
Chairman

LA:jlb

Congreſs of the United States
House of Representatives
Committee on Energy and Commerce
Room 2125, Rayburn House Office Building
Washington, D.C. 20515

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

February 7, 1985

The Honorable Caspar W. Weinberger
Secretary of Defense
Department of Defense
The Pentagon
Washington, D. C. 20301

Dear Mr. Secretary:

During the 98th Congress, the Subcommittee on Oversight and Investigations began a legislative oversight investigation of matters pertaining to the General Dynamics Corporation. It is anticipated that this investigation will continue during the 99th Congress. Of particular concern to the Subcommittee has been evidence that General Dynamics may have violated laws and regulations under the responsibility of the Securities and Exchange Commission (SEC). These include matters of management integrity and certain reporting requirements by the Corporation to its shareholders. The SEC is currently conducting its own investigation into General Dynamics.

The following information has been extracted from a July 6, 1977 SEC report of an investigation of Lester Crown and the General Dynamics Corporation: In October 1972, Lester Crown contributed $15,000 of his personal funds to bribe selected Illinois State legislators for which the State legislators were later indicted and convicted. In 1973, Lester Crown directed various officers of a General Dynamics wholly-owned subsidiary, Material Services Corporation, to falsify expense reports of the Corporation in a scheme to reimburse Crown for his personal funds used in the bribes. In June 1973, the subsidiary was subpoenaed by a Federal grand jury to produce corporate records and an officer to testify before the grand jury. In August 1973, the United States Government entered into immunity agreements under the terms of which it agreed not to prosecute General Dyanmics, Material Services Corporation, or their respective officers, directors, and employees in return for full cooperation in the investigation.

On June 1, 1973, General Dynamics' outside counsel, Albert Jenner, learned of the bribery scheme; Jenner conducted an investigation of the bribery scheme and the falsification of the expense accounts. On August 17, 1973, Jenner informed David S. Lewis, Chairman of the Board of General Dynamics, of the results of his investigation. On November 6, 1973, Jenner told the General Dynamics' Executive Committee of the grand jury subpoena and the bribery scheme -- and, according to testimony taken by the SEC, he may not have told the Executive Committee about Lester Crown's role in the bribery scheme or the falsification of the expense reports -- minutes of the meeting do not reflect any disclosure.

On March 24, 1974, David S. Lewis formally nominated Lester Crown as a Director of General Dynamics Corporation by issuing a proxy statement which made no reference to the bribery or falsification of expense accounts; Crown was later elected to the Board of Directors in May 1974.

Recently, the Department of Defense advised the Subcommittee that General Dynamics had requested a Top Secret security clearance for Lester Crown in the spring of 1974. In fact, on July 31, 1974, in the midst of the grand jury investigation, the Department of Defense granted Lester Crown a Top Secret security clearance.

On December 4, 1974, indictments were returned in the United States District Court for the Northern District of Illinois; Lester Crown and four present and former employees of the General Dynamics subsidiary were named in the indictment as unindicted co-conspirators.

At the December 5, 1974 General Dynamics Board of Directors meeting, the full Board, for the first time, was told about the grand jury subpoena. This was 18 months after Jenner and Lewis learned of the bribery scheme. Jenner summarized the indictment, which had been handed down the day before, and told the Board that Lester Crown and other employees of the General Dynamics subsidiary had been named as unindicted co-conspirators. There was no mention of the falsification of expense accounts.

It was not until the August 2, 1976 Executive Committee meeting and the September 2, 1976 Board of Directors meeting (over three years after Jenner and Lewis learned of the bribery scheme), that all of the Directors were told of the full extent of Lester Crown's involvement in the bribery and falsification of expense reports.

Bribery is a major felony involving serious moral turpitude. The election to, and the retention on, the Board of Directors of an individual who admittedly was actively involved in the commission of a major crime is a statement of the integrity of the management of our nation's largest defense contractor. Questions of possible criminal conduct and dishonesty should be matters of extreme concern to the Department of Defense in determining an individual's eligibility for a security clearance.

The Department of Defense granted Lester Crown a Top Secret security clearance on July 31, 1974, in the middle of a grand jury investigation of his activities involving bribery and falsification of corporate records. This certainly raises some important questions. Did Lester Crown and the General Dynamics Corporation report this adverse information on official forms applying for the security clearance? Did Lester Crown and General Dynamics officers describe fully and accurately Lester Crown's role in the bribery scheme and the falsification of the expense reports to Department of Defense investigators? Did the Department of Defense properly evaluate Lester Crown's security clearance case?

Lester Crown, by virtue of his position and high level clearance, presumably has access to extremely sensitive information affecting the national security. After all, General Dynamics produces the major weapons systems for each of the three Armed Services: the M-1 Tank for the Army, the F-16 Fighter Aircraft for the Air Force, and the TRIDENT and 688 Class Attack Submarines and the Tomahawk Cruise Missile for the Navy. It would follow that Lester Crown probably has regular access to intelligence, nuclear weapons, nuclear propulsion, and other particularly sensitive data.

We would appreciate being advised of the security clearances, including special access and intelligence, that have been granted to Lester Crown by the U. S. Government. In addition, because of the Subcommittee's interest in determining whether the Corporation and its officers may have been derelict in their reporting requirements, we request that Lester Crown's security files be made available for review by the Subcommittee staff.

If you have any questions regarding this request, please contact Michael Barrett or Peter Stockton of the Subcommittee staff at 225-4441.

Thank you for your cooperation in this matter.

Sincerely,

John D. Dingell

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

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FEDERAL SECURITIES LAWS AND DEFENSE CONTRACTING

MONDAY, MARCH 25, 1985

House of Representatives,
Committee on Energy and Commerce,
Subcommittee on Oversight and Investigations,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2123, Rayburn House Office Building, Hon. John D. Dingell (chairman) presiding.

Mr. Dingell. The subcommittee will come to order.

The subcommittee is proceeding under its responsibilities under rules 10 and 11 of the rules of the House of Representatives which assign to the Committee on Energy and Commerce the responsibility for Federal securities laws and therefore oversight of the Securities and Exchange Commission.

The committee and its Subcommittee on Oversight and Investigations are charged with reviewing "on a continuing basis" the administration of these laws to make sure that they are adequate and are adequately enforced.

The committee is concerned in our proceedings today with the problem of corporate integrity, the proper and adequate carrying out of corporate responsibility is for the filing of truthful, proper reports with the Securities and Exchange Commission, and proper and adequate reporting to corporate shareholders of events which might affect the value of their stock, and which might inhibit their right to know of the conduct of corporate officers exercising the trust which is placed in them when they are elected to that office.

Our affairs have been a little bit like the peeling of an onion. We thought when we had commenced our business that we were peeling a rather small gherkin. It appears today that we are peeling a rather large onion, and as we go through one layer it appears that there is always a new layer which compels inquiry by the subcommittee into matters in that particular layer.

The committee today continues its inquiry into the activities of the General Dynamics Corporation. The inquiry concerns the adequacy of the disclosure of the financial status of the corporation and the integrity of the management of the corporation.

General Dynamics is listed and traded on the New York Stock Exchange and various regional stock exchanges, and therefore is subject to the reporting requirements of the Securities and Exchange Commission. For some time, allegations of questionable practices involving the company and its behavior under the Federal securities laws have been circulated.

The subcommittee is becoming concerned about the bookkeeping practices of General Dynamics that could lead to millions of dollars of overhead expenses which are clearly unallowably being charged to the Government. This could have the potential for significant returns of money to the Government, possibly adversely affecting the value of the shareholders' interests. Millions of dollars in profit can clearly be made using this kind of practice, at least on a temporary basis.

Not only was the dog-boarding first charged to the taxpayers, but General Dynamics, the Chair observes, received a profit on top of fraudulent dog-boarding charges. The committee's concern heightens when we find $5 million worth of vouchers with no names whatsoever on them being charged to the Federal Government. Who the beneficiary of the voucher is and the purpose for its expenditure is unclear. Yet it may be observed, clearly, that the Federal Government was charged not only with the costs of these vouchers, but with the profit thereon.

The subcommittee has found it hard to believe that the Department of Defense has done nothing about these practices, which I am becoming convinced are widespread in the industry. Considering the condition of the accounts, anything could be going on, and no one would know what it was, and all of it could be very damaging to the public interest, and more so than the simple problem of improper charges to the taxpayers.

The practices that have been observed so far in the limited inquiry of the committee raise a significant specter of fraud, embezzlement from the corporation, kickbacks, and improper payments fully out of conformity with a number of Federal statutes.

The Department of Defense has known about these practices for at least 10 years, and that can be documented. It has simply lacked the will to put an end to these kinds of practices. If there is a problem with the rules, the Chair will observe the rules should be changed. We have heard that the industry plays a role in setting the rules, and the Chair believes that that is a practice which must end, because the rules are supposedly there for the protection of the taxpayer, who seems to be getting somewhat tired of excessive charges being levied upon him for the support of dog-boarding and similar exercises on the part of defense contractors.

The subcommittee had hoped that Secretary Weinberger was going to take meaningful action against these contractors. The Chair observes with great regret that the hope of the committee on that point is dwindling sharply and dwindling rapidly. With great fanfare, Secretary Weinberger suspended the overhead payments to General Dynamics for 30 days while announcing an investigation of General Dynamics' overhead accounts. Those overhead accounts amount to something between $30 or $40 million against a total expenditure on a monthly basis of somewhere between $800 million and $1 billion.

The committee observes that we are now two-thirds of the way through the initial suspensions and not a single investigator has been dispatched to any General Dynamics division, and no one has been dispatched to General Dynamics headquarters. The committee will inquire in the appropriate fashion and time to ascertain why this is so, and why the Department of Defense is proceeding in such a slow and apparently charitable fashion.

The latest information from the sources available to the committee is that one lone DCAA auditor has visited three divisions. If that is a measure of the vigor of Mr. Weinberger's investigation, the taxpayers are in trouble, and I think the taxpayers could have a better perspective on why cost overruns are a regular feature of the defense establishment.

The Chair will observe that in appropriate fashion, Mr. Weinberger will be invited to testify before the committee—we hope that that will be in the near future—to discuss the adequacy of the books and records of major defense contractors and other questions and issues of interest to the subcommittee in carrying out its proper responsibilities.

Today, the subcommittee will clarify certain issues that were raised in the February 28 hearing, and will be requesting other explanations of still other issues that are of concern to the committee

The Chair observes that the first witness of the committee today will be Mr. James Ashton, a former representative of the Electric Boat Division of General Dynamics. He will be followed by a panel composed of Mr. David S. Lewis, chairman of the board and chief executive officer of General Dynamics, and Mr. Gorden E. MacDonald, executive vice president and member of the board of directors of General Dynamics

Mr. Ashton, the committee thanks you for your presence today. Before the Chair recognizes you, however, the Chair does request my colleagues to inform me of any desire for opening statements. The Chair recognizes the gentleman from Oregon, Mr. Wyden.

Mr. WYDEN. Thank you very much, Mr. Chairman.

In the beginning, let me state how much I apprecate your tenacity in pursuing this investigation. I only wish that Casper Weinbeger would come by and see you for some pointers on how to conduct a real investigation. The Defense Department's failure to move agressively to initiate the review of General Dynamics' billing procedures has sent a clear message that Casper Weinberger really doesn't want to stop the music. The pork barrel is still open, and you can come by for some easy pickings.

Several weeks ago the Defense Department called the testimony of General Dynamics at our last hearing "nauseating." It was, but as far as I am concerned, the hypocrisy of the Secretary of Defense posing as an aggressive investigator of improper defense billings is even worse.

Today our subcommittee turns its attention to other attempts by General Dynamics to launch a first strike against the taxpayers of this country. We will again see a stunning pattern of amorality in the executive suites of General Dynamics.

In a few minutes I am going to ask the staff to play a tape that shows the company trying to hide the size of cost overruns on contracts to build Navy attack submarines in order to present a deceptive picture of the company's financial status to the outside world. It is shocking and it is outrageous to see this sort of elaborate maneuvering to hide the ball from the stockholders and the SEC, but that is the way life appears to be at General Dynamics.

Later today we will ask Mr. Lewis about his failure to inquire into scams against the taxpayers and the shareholders such as the kickbacks received by Mr. Veliotes from Frigitemp. Anybody else walking around with his eyes half open would have run into it.

Finally, we will see if General Dynamics, in addition to breaking laws and cutting corners in this country, is also engaged in unlawful conduct in its efforts to sell weapons overseas.

Mr. Chairman and colleagues, we are going to vote this week on the MX missile. We are being asked by the Defense Department to appropriate about $20 billion for this particular weapon. After spending a lot of time at our previous hearings, I can't help but wonder how much of the $20 billion, if it was approved, would actually be spent on missiles, and how much would be spent on fancy entertainment, personal travel, and the Furstens of the world.

So, Mr. Chairman, I say full speed ahead with this investigation. Let's put these hearings in the history books as the time when the Congress turned things around finally at the Department of Defense.

Mr. Chairman, the taxpayers of this country are with you all the way.

Mr. DINGELL. The Chair thanks the gentleman. The gentleman from Minnesota, Mr. Sikorski.

Mr. SIKORSKI. Thank you, Mr. Chairman.

For years people have argued over the authorship of the phrase "inconsistency is the hobgoblin of people's minds." Perhaps it is the poetic justice that its authorship and precise words are so inconsistently observed and applied. There is neither poetry nor justice in the maddening story of General Dynamics, but the inconsistencies are glaring.

After our last hearing, Secretary of Defense Weinberger's assistant for public relations, Mr. Michael Burch, called the General Dynamics testimony about illegal gratuities "nauseating." Yet Mr. Burch himself had received such gratuities. Evidently the illegal food and drink that General Dynamics bought him caused him indigestion after only 2 years of a little public exposure.

After our last hearings, Secretary Weinberger took to TV, telling Americans he was getting tough and announced he was holding up $40 million in overhead expenses to General Dynamics for 30 days. Although he was holding a little bit back in overhead, with one hand, the other hand gave General Dynamics over $600 million in full reimbursement of the weapons system billing even though there is clear evidence of gouging and mismanagement there, and thus far Mr. Weinberger's big review of overhead and his get-tough policy has not even been started.

Before our hearing, Department of Defense General Counsel Chapman Cox, Secretary Weinberger's lawyer and, the chief legal enforcement officer for American taxpayers concerned about how their $300 billion is spent by Defense, went up to General Dynamics Electric Boat Works and heaped fawning praise on General Dynamics and its executive vice president, Mr. Sawyer, who was recently a Department of Defense officer. He does this even though General Dynamics and Vice President Sawyer are targets of a grand jury investigation.

At our last hearing Mr. Lewis testified about how honorable his company was and how diligently he was investigating and rooting out improprieties. Yet General Dynamics had, just days before, barred our investigators from interviewing his Washington, DC personnel about several million dollars in blank vouchers charged to the taxpayers.

Especially following our last hearing, reporters and taxpayers and Members of Congress were told that the Department of Justice was intensely involved in investigating the heap of General Dynamics improprieties. Yet Justice has refused to release pertinent information from its closed 1978 through 1981 investigation, and Justice is now headed by former White House counsel Ed Meese, who met with General Dynamics Chairman Lewis at just the time Justice decided not to prosecute and at just the time General Dynamics was bailed out of hundreds of millions of dollars of overruns.

But before any feebleness from these inconsistencies overtakes us, I want to commend the chairman and their staff for their diligence, their toughness in their pronounced respect for the taxpayers of America. I especially welcome the opportunity to hear from Mr. Ashton, who saw wrong at General Dynamics and tried to right it, who worked to make the system work within General Dynamics, but who was stepped on by Mr. Lewis for telling the truth.

Thank you, Mr. Chairman.

Mr. DINGELL. The Chair now recognizes the gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

I want to tell you how truly pleased I am that we were finally able to work out a relatively satisfactory resolution to the committee ratio situation. I am delighted that I have been appointed to this subcommittee, which I requested, and I look forward to working with you in a bipartisan manner to address those issues which are so very important to the people of our republic.

As a former member, Mr. Chairman, of the House Small Business Subcommittee on Oversight, I was deeply involved in the investigation of fraud and waste in defense contracting, and in the development of legislation geared toward opening up competition in defense contracting. The depth of public resentment, as you know, against waste and fraud in the defense establishment is striking and universal. A "Business Week" Harris Poll found that 70 percent of Americans are overwhelmingly convinced that defense contractors routinely overcharge the Pentagon. And Americans, by a margin of 56 percent to 33 percent, are convinced that there is more waste in Federal defense programs than in Federal social programs.

Mr. Chairman, we must be openminded and objective, and yet I sincerely believe we must get to the bottom of any fraud, waste and abuse in the defense establishment and put a stop to it. I am certain we all agree on the need for a strong national defense. However, while striving toward this goal we must insure that for every tax dollar spent we are in fact receiving a dollar's worth of value.

This is especially critical when we look at our alarming deficit, which adversely affects every American, and which provides no room for waste. It is incumbent upon the Congress and the Department of Defense to take every step necessary to restore the public's confidence and support by ferreting out those abusers and dealing with them harshly. I believe the administration is making strides in attacking this monumental task. However, they need our help.

I hope, Mr. Chairman, that the witnesses will provide answers to our questions that will disabuse this committee of the notion that General Dynamics engaged in any form of misconduct. Any failure to do so, undermines the confidence of those who have been invested in the company on the assumption that it was a profitable company run by highly qualified management.

Moreover, since 94 cents out of every dollar earned by General Dynamics comes from this country's defense budget, claims that General Dynamics improperly billed the Federal Government for millions of dollars, if proven to be correct will only undermine the President's attempts to maintain an adequate budget for the defense of this country and thereby may jeopardized our national security.

Mr. Chairman, thank you very much for holding this hearing. I look forward to the testimony that we will be receiving today.

Mr. **Dingell**. The Chair thanks the gentleman. The Chair recognizes now the gentleman from Texas, Mr. Bryant.

Mr. **Bryant**. Thank you, Mr. Chairman. I simply want to also associate myself with the statements of the other members and to thank you for your tenacity in pursuing this matter and to make one important point. This committee has been investigating what either is misbehavior or, mismanagement and, to some extent, fraud on the part of the management, the top management, of General Dynamics.

I am aware of statements that have been made to employees of the company in speeches and perhaps in publications by officials of the company to the effect that there is a group of people who are seeking to somehow blacken the reputations of the thousands of employees of General Dynamics. That is not true, and it reminds me, I guess, of a former President who was being pursued by Members of Congress back in the early seventies who attempted to suggest that pursuing him was tantamount to pursuing and blankening the reputation of the whole country.

We are talking about Mr. Lewis, Mr. MacDonald, and their associates, and the way in which they have run this company and the way in which their senior management has allowed phony vouchers to be submitted to the Government and other types of abuses. This is no reflection on the thousands of employees of General Dynamics, and those who would say that it is an attempting to hide behind the good reputations of their employees to protect their own misdeeds.

We attempt in this committee only to ferret out the mismanagement and the misdeeds of those whom we have been referring to specifically in the activities of this committee, not all those good employees who have done a good job for their company and to their country. Thank you.

Mr. **Dingell**. The Chair thanks the gentleman. The Chair recognizes the gentleman from Colorado, Mr. Schaefer.

Mr. **Schaefer**. Thank you, Mr. Chairman. I appreciate the opportunity this morning to be able to speak on this subject, and particularly with the individuals we have here today.

Gentlemen, it seems to me that the General Dynamics Corp. has a public relations problem. Every time I see a new article regarding your company it is because a new troubling issue has surfaced. At the very least, I find it disconcerting that investigations regarding General Dynamics are being conducted by the Naval Investigative Service, the Securities and Exchange Commission, and the Internal Revenue Service and others all at the same time.

As a proponent of a strong national defense, I find it very difficult to make an argument for necessary defense dollars when the first thing that people think about are a $435 hammer or an $18,000 country club membership that is coming out of their pockets. I look forward to your shedding some light on these allegations. We all know that General Dynamics has made important contributions to the defense of our Nation.

I look forward to these contributions continuing in the future. However, unless you can convince the American people that you have not taken unfair advantage of them, you are inviting a backlash on the General Dynamics Corp. and the industry as a whole. I look forward to your testimony.

Thank you, Mr. Chairman.

Mr. **Dingell**. The Chair thanks the gentleman. The gentleman from Alabama, Mr. Shelby.

Mr. **Shelby**. Thank you, Mr. Chairman.

Last month I began my opening remarks with the words of the 17th century English scholar Matthew Henry. I think they are appropriate today, for the continuance of this hearing. He said: "It is not fit that the public trust be lodged in the hands of any until they are first proved and found fit for the business they are about to be entrusted with."

Mr. Chairman, to a certain degree our first hearing last month was devoted to determining whether General Dynamics had indeed violated that public trust. Unfortunately, I am sure most of us agree that the answer was a resounding yes.

Consequently, our task today revolves around the magnitude of General Dynamics's betrayal, a betrayal of the public trust which will not go unnoticed and has not gone unnoticed. Although unquestionably wrong, our Nation's defense is not marginally affected by taxpayer reimbursement of dog-flight vouchers or country club expenses. But when the institutional arrogance fostered by such abuse leads to serious violations, the Nation's security is ultimately at stake.

Mr. Chairman, chili cookouts and luxury hotel bills are one thing. Faulty submarine construction and publication of classified information are quite another.

To what extent has General Dynamics abused their position, and to what degree has the Nation's Defense Establishment been harmed? Hopefully today's hearings will shed more light on this.

Mr. **Dingell**. The Chair thanks the gentleman.

The Chair observes our first witness is Mr. James R. Ashton. Mr. Ashton, please come forward. Please be seated and be comfortable.

The Chair has certain matters that have to be addressed prior to your appearance.

The Chair first informs you that there are copies of the rules of the subcommittee, the rules of the committee, the rules of the House in the booklets which appear before you for your assistance and information.

The Chair asks you, do you object to appearing under oath this morning?

Mr. Ashton. No, I do not.

Mr. Dingell. It is your right, the Chair observes, to be advised of your rights and the limitations on the power of the subcommittee by counsel, if you so desire. Do you wish to have an attoney with you there at the table?

Mr. Ashton. No, sir.

Mr. Dingell. Then if you do not object to appearing under oath, if you will please raise and rise your right hand.

[Witness sworn.]

Mr. Dingell. Mr. Ashton, the committee first wishes to express particular appreciation to you for your appearance here this morning. The Chair observes that you are the former assistant general manager for engineering at the Electric Boat Division of the General Dynamics Corp. The Chair also observes that you have a Ph.D. in engineering from MIT, and a master's of business administration from Harvard University.

At the rather young age of 35 years, you were vice president for production at the Fort Worth Division of General Dynamics in charge of production of the F-16 fighter aircraft, prior to being transferred to the Electric Boat Division in the fall of 1980.

The Chair observes that you will testify today about your experience at Electric Boat and particularly about certain costs and schedule analyses that you performed that bear on SEC disclosure requirements. The Chair observes that you left General Dynamics in early 1982.

With those comments, the Chair again expresses the appreciation of the committee for your appearance here today, and also observes that you are recognized for such statement as you might choose to give.

TESTIMONY OF JAMES E. ASHTON, FORMER EXECUTIVE OF GENERAL DYNAMICS CORPORATION

Mr. Ashton. Thank you.

I would like first to go through some fairly prepared remarks that I think will be helpful to the committee in understanding the circumstances of my employment with General Dynamics in the 1980-81 timeframe at the Electric Boat Division of General Dynamics, and of the situation there as I found it or at least perceived it.

I have certain misgivings with being here and participating in this investigation, which I would like to note first of all. The first one involves the appearance that Mr. Veliotis has taken on in the media and in various descriptions of behavior. Basically, Mr. Veliotis in some form is being made to look like a good guy. Mr. Lewis suggests in his prepared statement on February 28 that it is incredible that the word of an indicted fugitive and a perjuror should be believed so readily by the media and by other folks, and certainly I understand that position of Mr. Lewis, since I had concluded by approximately February of 1981 that Mr. Veliotis is a dishonest, unethical, and not even a very competent manager of the Electric Board Shipyard.

Unfortunately, I was unable to convince the folks in General Dynamics corporate office of my opinion in 1981, but my opinion still holds. Mr. Veliotis does not deserve the respect of the committee or of the people of this country, and I don't think anyone should distort the facts in that respect.

The second misgiving I have is as suggested by members of the committee in their opening remarks. The present General Dynamics exposure obviously weakens support for the defense budget. I believe in a strong national defense, and I believe we need to work in improving both the efficiency of the procurement system and of the contractors, but since we are unlikely to make instantaneous improvements in that system, we need to keep the defense budget adequate, which I believe in today's world means large, and insofar as this investigation hurts our ability to get the appropriations for such a defense budget, I would have to have misgivings about our results.

Insofar as it helps us improve the procurement process, then it is a constructive effort.

Finally, I think the spillover effect from the attention in the media from the subcommittee investigations and from the other investigations of a generally corrupt General Dynamics is certainly unfortunate with respect to at least the vast majority of honest and hard-working General Dynamics employees.

At the Fort Worth division, where I spent considerable time, at other divisions and at the Electric Boat Division, insofar as there are business practices which are not the ones we would wish to have, they are at most restricted to a relatively small percentage of the General Dynamics work force.

Now let me proceed to describe to you how I came to go to Electric Boat, things that I observed there, and my employment circumstances.

Mr. Lewis has outlined in his testimony for the record on February 28 the circumstances leading up to my moving to Electric Boat in October of 1980. In summary, I was a reasonably fast track executive, with extensive technical and business education, and a successful track record running engineering organizations and manufacturing activities, including, as you have said in your opening remarks, vice president of production over the F-16 aircraft program. That program had within my organization approximately 8,500 people, so I was used to dealing with relatively large activities.

My experience with General Dynamics up to that point in time had been entirely satisfactory concerning the business ethics practiced and the law-abiding approach to our business. I had been taught to interface constructively, openly and honestly with the customers, and especially at the Forth Worth Division on the F-16 program, we worked very hard and successfully to deliver a quality product on schedule at good efficiencies. My interface with corporate officers had me convinced that they believed in this approach to business with the Government. I believed that was the right approach then and I think it still is.

On approximately the last day of August 1980, I was invited to attend the christening of a liquefied natural gas tanker at the Quincy Shiphards of General Dynamics. It turned out that the reason for my invitation was to provide an opportunity for Mr. Lewis first, and then separately Mr. Veliotis, to offer me a position at Electric Boat and to convince me that I should take it.

Mr. Lewis and I had a meeting on that morning for approximately 2 hours over a broad range of subjects, but basically Mr. Lewis's position to me with respect to the situation at Electric Boat and with respect to me taking the job was as follows: First of all, Mr. Veliotis will be leaving Electric Boat when the Trident delivers. Second, nobody in Electric Boat is in a position to replace him. There is no one else there who can do the job. Third, it is a difficult general manager's job, but in Mr. Lewis' opinion, I would be able to do that job.

He distinctly did not promise me the job, but he did state there were no other candidates. He said the Electric Boat had basically been shaped up under Mr. Veliotis's managership, specifically that the Trident would deliver in June 1981, as it was then scheduled, which meant the period for me to be prepared to be the general manager was from when I arrived to when the Trident was scheduled to deliver, a total of 8 months. And he said that the 688 attack submarine contracts would be underrun by $100 million from the public law settlement in 1978. Finally, Mr. Lewis said that Mr. Veliotis was prepared to coach me extensively to prepare me to be the general manager.

Separately, I had discussions with Mr. Veliotis both at the time of the ship christening and also in September. His view of the situation was similar but not identical to that of Mr. Lewis. He said he would be leaving in the spring and no later than June. He said I would have the job in 6 or 8 months at the most, that is, as opposed to Mr. Lewis being careful with respect to not promising me the job, Mr. Veliotis was certainly not careful in that respect, and he would teach me the job. He wanted me to start in engineering, but only for a short time. In fact, the quote from Mr. Veliotis was "You only need to stay there long enough to find out which end of the boat we put the propeller on." And he wanted me to hurry and get up there so we could get on with this.

Based upon those representations, the encouragement of the chairman of the board, I accepted the job and moved to Electric Boat on October 20, 1980. My assignment was as the assistant general manager over the engineering department, and the engineering department was charged with doing the Trident design under a design contract to the Navy, doing construction-yard support on both the attack submarines and the Trident submarine, and various other engineering design contracts.

In the following March the facilities organization was added to my assignment, so that in that time period there were approximately 4,000 people in the organization I was managing.

When I arrived at Electric Boat, the reality of the situation turned out to be considerably different than as suggested to me by Mr. Veliotis and by Mr. Lewis. First of all, I was virtually ignored by Mr. Veliotis upon arrival. In the first 10 weeks on the job, from October 20 until Christmas vacation, I spent a total of approximately 2½ hours in Mr. Veliotis' presence, including meetings, including a total of 15 minutes of one-on-one time with Mr. Veliotis.

The general controversy was raging when I arrived with respect to the Trident and when it would deliver and the effect on schedule of engineering changes. That controversy and my particular background led to the one and only significant assignment that I received from Mr. Veliotis during my stay at Electric Boat. He asked me to assess the real effect of design changes on schedules and, by implication, on costs.

The reason, according to Mr. Veliotis, that I should prepare such an analysis or study was that I had the ideal background; I had extensive weapons system background; I had extensive engineering background; and I also had a strong manufacturing background. And furthermore, I did not have any ax to grind. I hadn't been in charge of the engineering department when the basic design was done.

I prepared a detailed briefing which was worked on not only by myself but a variety of senior Electric Boat managers, and also with Fort Worth Division data and help with respect to other weapons systems, specifically the F-16. This presentation was prepared by the middle of December, but for several weeks Mr. Veliotis could not find time to listen to the answer, so I finally sent it to him at Christmastime with a descriptive memo.

I would like to at this point to use three charts out of that presentation to give you a brief view of my conclusions from that study.

Mr. DINGELL. That will be entirely appropriate. Without objection, the charts will be inserted in the proper place in the record, and you are recognized to not only introduce the charts, but also to make any necessary comments. Do you need the lights out?

Mr. ASHTON. Yes; we will need the lights out, I believe.

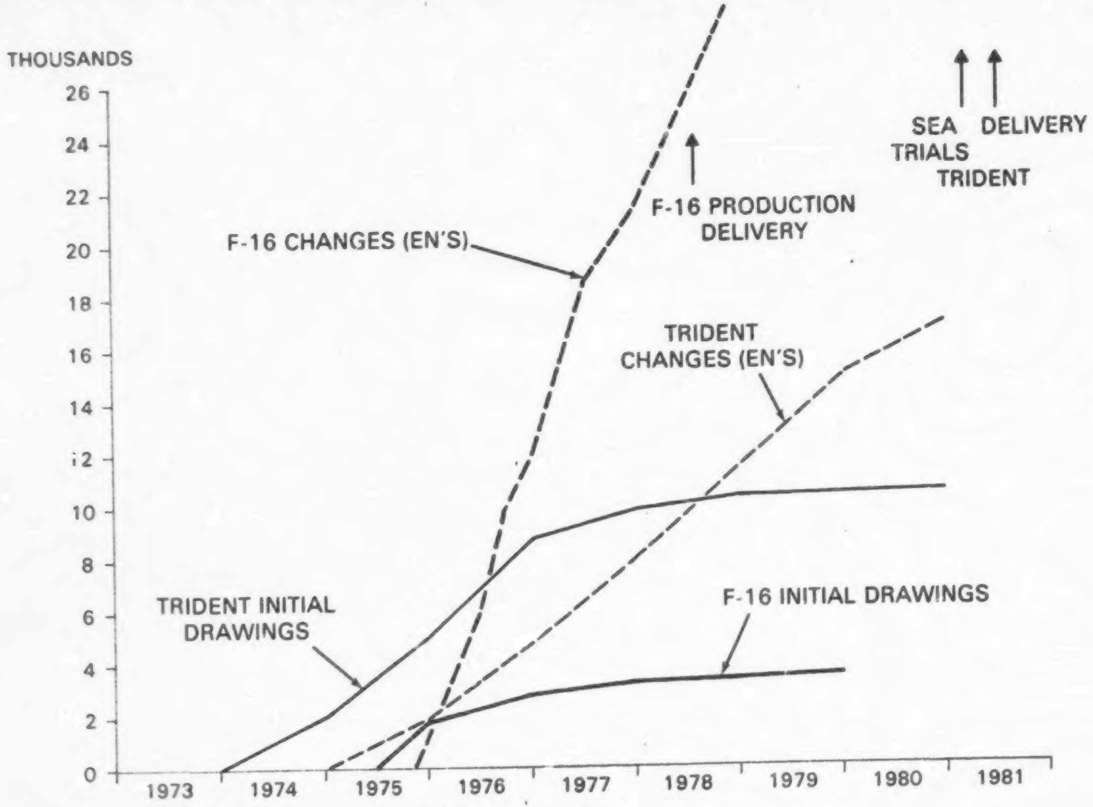
Mr. DINGELL. Will you please flick the lights out there?

Mr. ASHTON. It is hard to read that way.

This chart is a simple comparison between the F-16 and the Trident submarine, the actual analysis that went into the comparison between these weapons systems rather extensively, but the simple conclusion was that the F-16 required about one-third as many basic design drawings as the Trident submarine in terms of the description of what needed to be built in the yard or in the factory, and the number of engineering changes to those drawings varied dramatically, but rather than the Trident having greater change traffic—as you can see even from the chart, even though the F-16 required one-third as many drawings—those drawings were changed many times more often, many, many times more often, approximately six times as many times as the Trident drawings were changed.

You also can tell that the weapons systems were built in roughly the same timeframe.

[The chart referred to follows:]


THOUSANDS
26
24
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16
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8
6
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1973
1974
1975
1976
1977
1978
1979
1980
1981
F-16 CHANGES (EN'S)
F-16 PRODUCTION DELIVERY
SEA TRIALS
DELIVERY
TRIDENT
TRIDENT CHANGES (EN'S)
TRIDENT INITIAL DRAWINGS
F-16 INITIAL DRAWINGS

Mr. **Ashton**. It is obvious that it is not just the number of design changes or engineering changes, and as an aside, Navy-imposed changes are the same as design changes. It is not just the number of changes, but also the difficulty and the timeliness of those changes; that is, a very fundamental change to a system late in the production cycle is certainly more important than moving a rivet months before you have to put the rivet in. So the analysis went through a comparison of the nature of the changes that we had experienced on the F-16 program, and observed that in my judgment they were later and more difficult than those that we were experiencing on the Trident submarine.

Now, in this context, I think you need to remember that the F-16 was delivered certainly not because of Jim Ashton but because of a total team effort by General Dynamics and working with the customer, but was delivered on schedule and on the promised budgets.

Based on that, my total conclusion is summarized as the Trident design agent had done an excellent job, and that the engineering changes did not appear untimely, formidable nor unexpected for a job of this sophistication and complexity. That is all the charts for the moment.

Mr. **Dingell**. Would you flick the lights back on, please?

Mr. Ashton, would you submit the entirety of that report to the subcommittee?

Mr. **Ashton**. Yes; I will.

Mr. **Dingell**. Thank you. You may continue.

Mr. **Ashton**. As I said, I sent this presentation, which was a result of the analysis, to Mr. Veliotis at Christmastime, and I left for Christmas vacation. When I returned, I had a number of memos from Mr. Veliotis. He was off on a 3-week vacation.

In Mr. Lewis's prepared testimony, he said that Mr. Veliotis had sent a "thoughtful memo"—that memo by the way was dated December 31, 1980—"critical of my behavior and performance." I had been at Electric Boat at that point in time for 10 weeks.

My own opinion of that thoughtful memo is somewhat different than implied by Mr. Lewis. That memo showed up simultaneously with another memo from Mr. Veliotis that expressed unhappiness relative to the design changes comparison I had done. It was quite obvious to me that I had gotten the wrong answer. The answer I had did not support the party line of blaming the Navy and the design agent for all of the problems, and therefore it was time for Mr. Veliotis to begin to try to scare me, and to discredit me, and he wrote a very carefully worded memo, which would appear to be a good start on that direction to do it.

Certainly, a man who was devious enough to tape telephone conversations and gather information for over 4 years was devious and smart enough to determine that I was unlikely to be fooled by his act and his explanations, and that it was time to start setting me up as an immature malcontent.

Considering the total 2½ hours that Mr. Veliotis had provided me of coaching, or even exposure, in 10 weeks, I think it is hardly an effort to help me succeed.

In spite of those things, I proceeded as best I could to learn about not only the engineering aspects of building nuclear submarines, but also the operation of the yard and the status of Electric Boat. By mid-February I had learned to read and interpret the internal cost and schedule reports, which come out biweekly, and which are relatively difficult at first to understand. Based upon an analysis of those reports, and various discussions and walks through the yard, it became obvious to me that a number of things were different than I had been told.

First of all, Mr. Lewis' statements on the status was not close to correct. The overruns on the 688's would be $150 to $200 million, not an underrun of $100 million. Furthermore, the Trident would not deliver in June. It would deliver in October, by the end of October at the very best.

Second, the party line that was espoused by Mr. Veliotis in that timeframe, that "our problems are behind us" was totally inaccurate and misleading.

Third, the causes of the problems were mismanagement, mismanagement to a degree I had never seen before. A little later I will use a few charts from the analysis that I prepared for a particular use I will describe to illustrate my assessment of what was going on.

Fourth, the relationship with the Navy was totally adversarial, with many misrepresentations and deceits by the contractor, by Electric Boat management to the customer as a normal operating mode.

Finally, Mr. Veliotis was only at Electric Boat approximately 1 day a week, and for a place that was beseiged and performing horribly, this seemed to be an inappropriate attention to the job at hand.

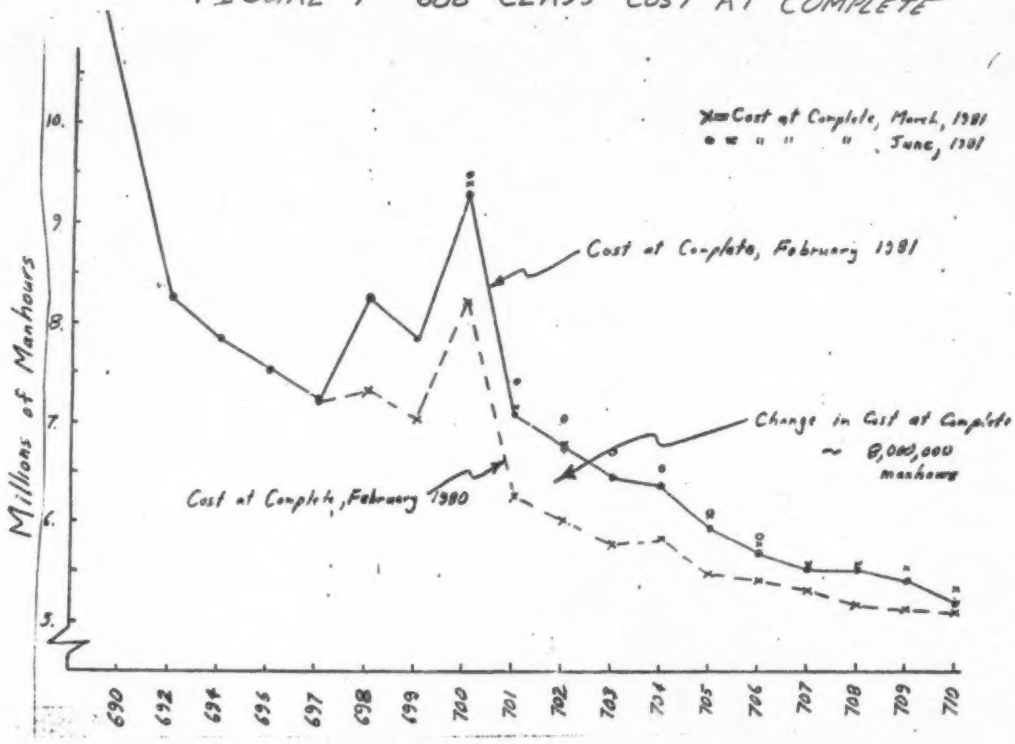
I had tried to express my views relative to the real problems to Mr. Veliotis, and was simply ignored or excluded.

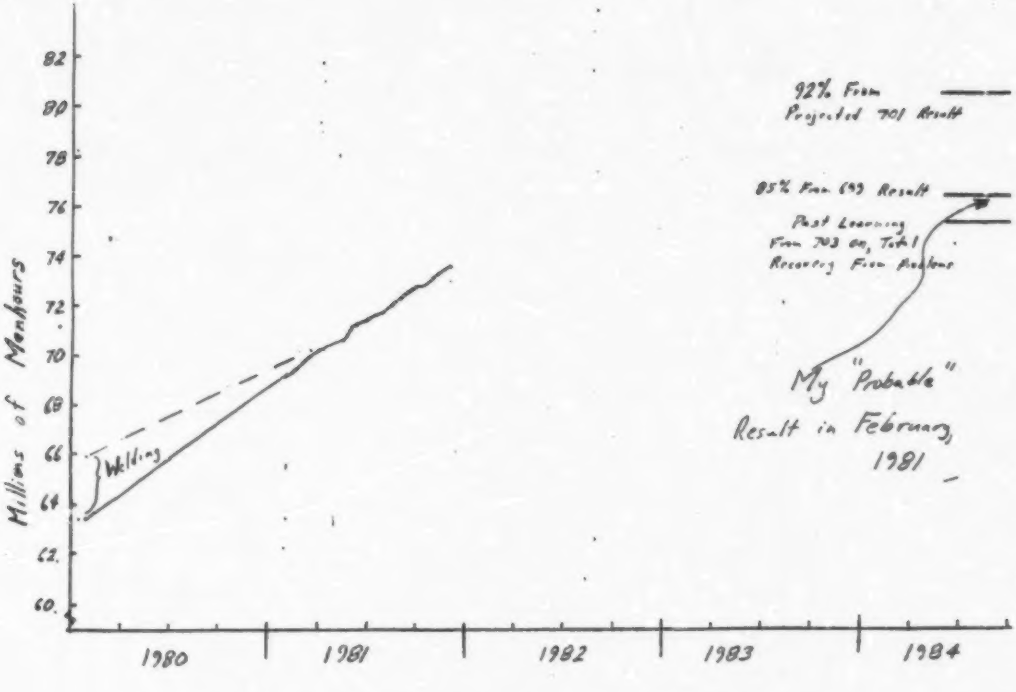
Now, as I said earlier, based on my past experience, I would expect the corporation to want to behave in an ethical and legal mode. I did not believe Mr. Lewis would condone the way we were conducting business, if he knew the real situation. I believe what he told me at the end of August was what he believed at the time. Although it was obvious to me I was not furthering my career, I prepared an analysis and presentation material meant for transmittal to Mr. Lewis. I am going to use a small part of that analysis in presentation now to clarify what was going on there. The overall package of presentation material was about 45 charts, but I will restrict myself at the present time to the use of 8 charts and my conclusions.

Mr. **Dingell.** Without objection, the charts will appear in the record.

[The charts above referred to follow:]

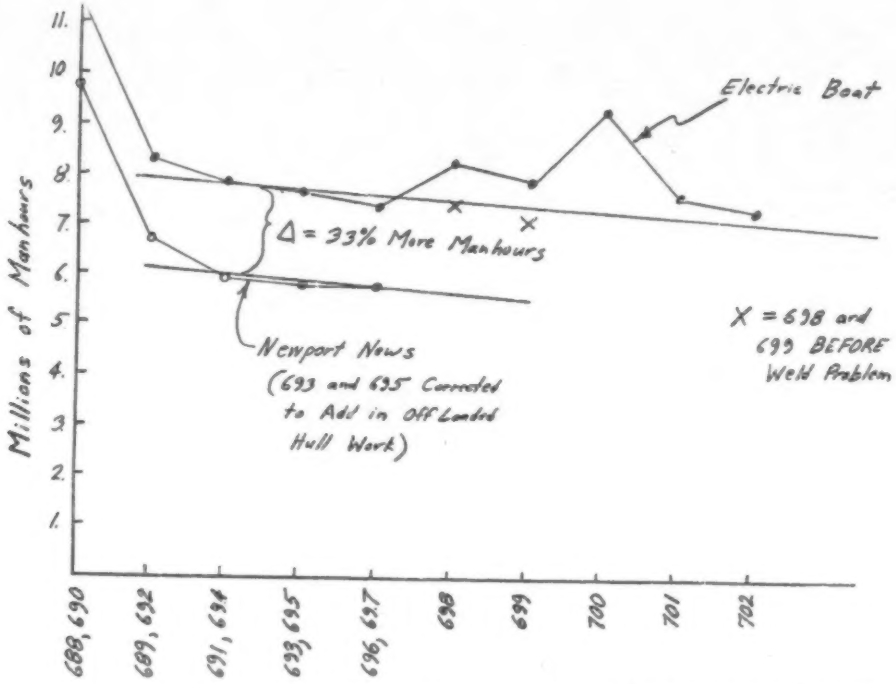
FIGURE 1 688 CLASS COST AT COMPLETE



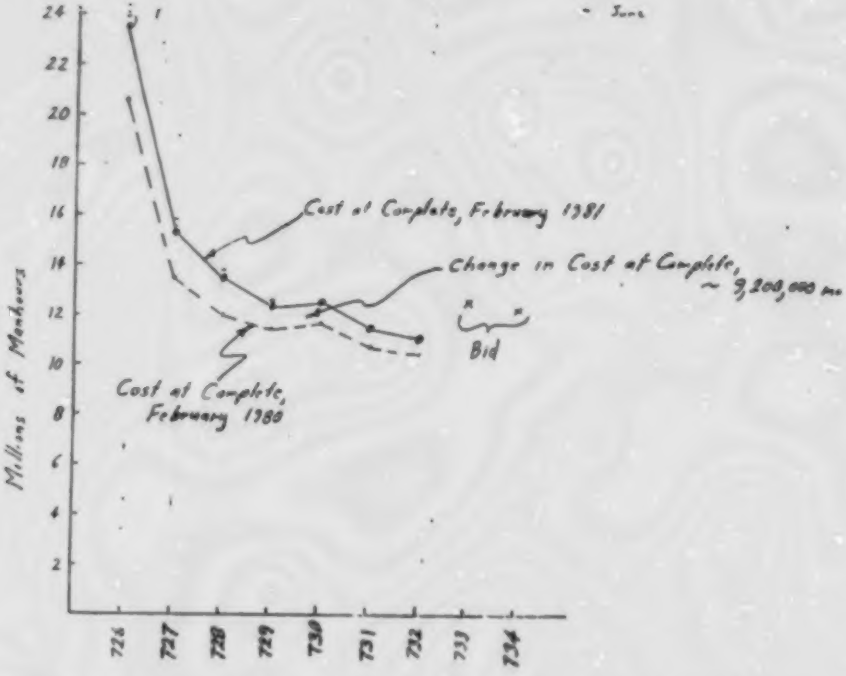


688 FLT II COST AT COMPLETE

4321.

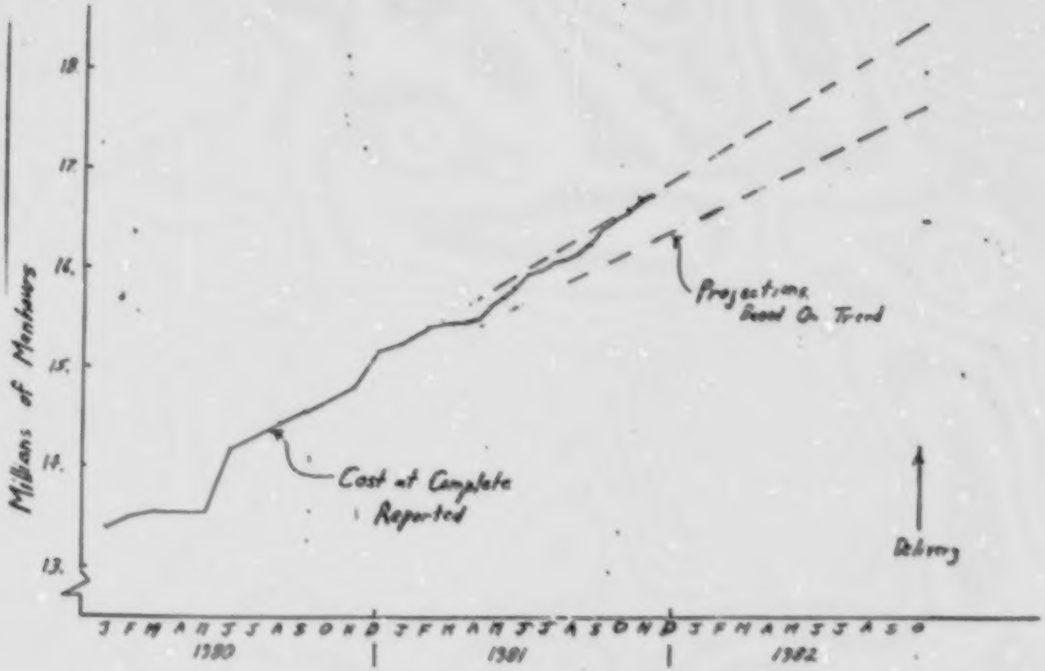


NEWPORT NEWS VS ELECTRIC BOAT

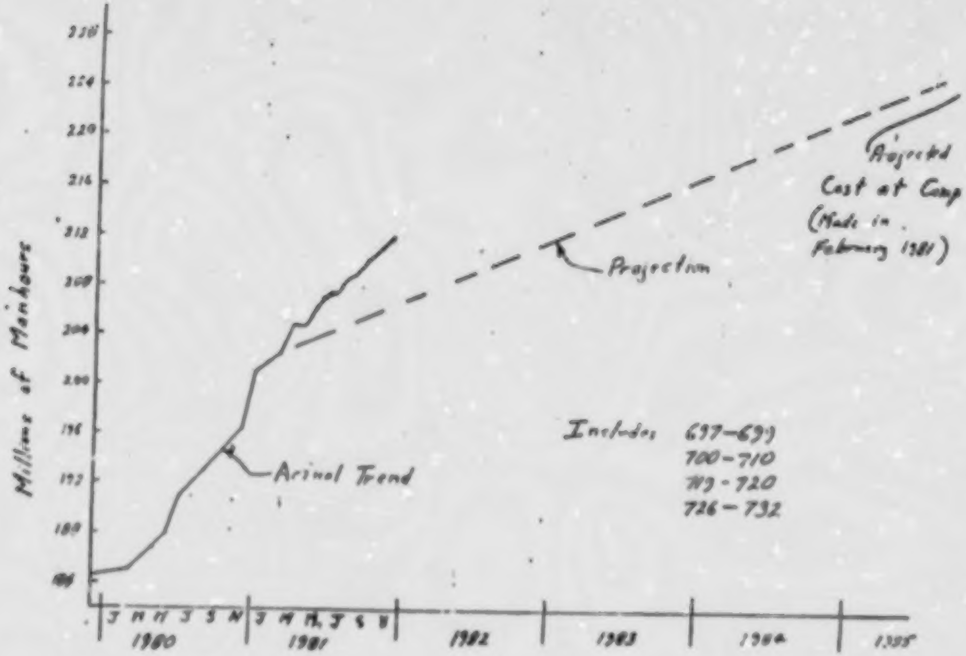


TRIDENT CLASS COST AT COMPLETE

436.



COST AT COMPLETE TREND ON 727



COST AT COMPLETE, TOTAL

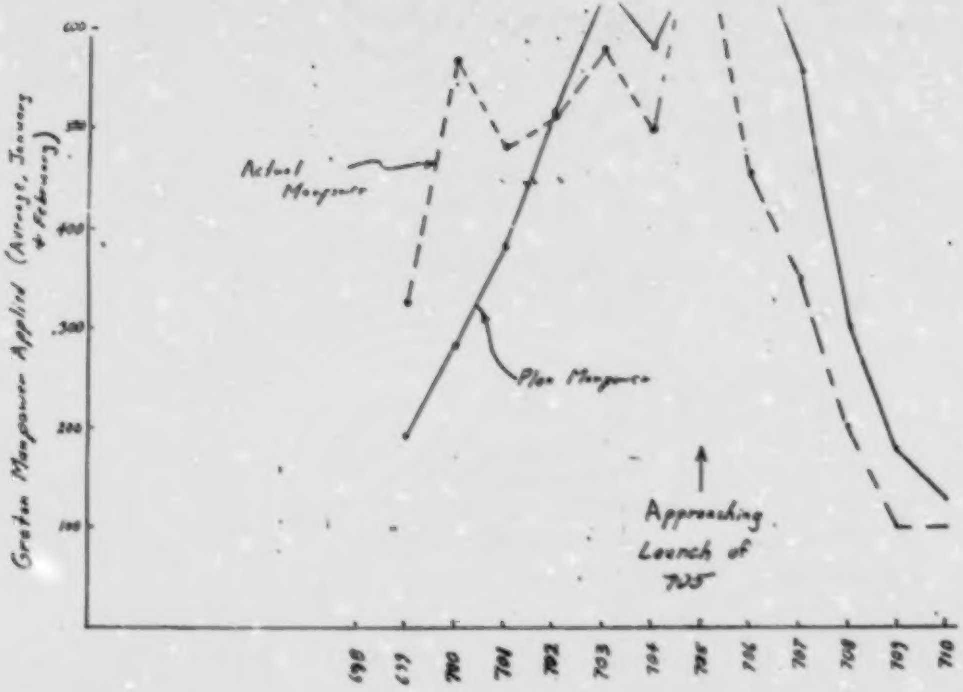
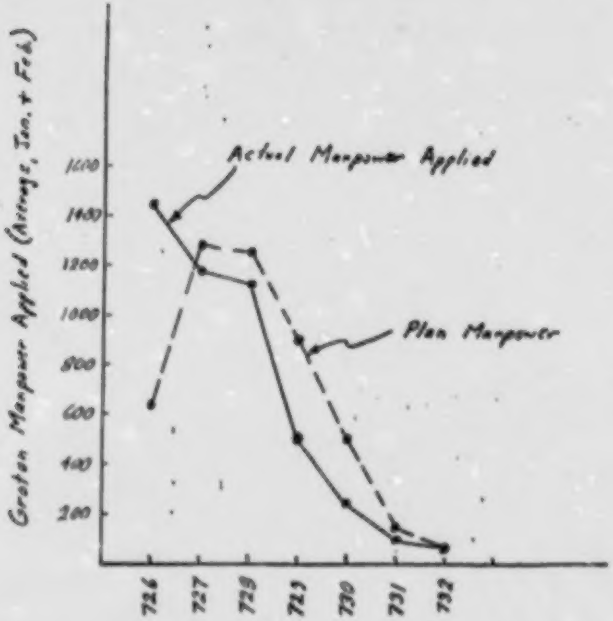


Figure 8 688 CLASS MANPOWER APPLICATION, JAN. AND FEB. VS. PLAN

489.



TRIDENT CLASS MANPOWER APPLICATION, JAN. and FEB. vs. PLAN

440.

Mr. DINGELL. Mr. Ashton, I assume the balance of those will also be made available.

Mr. ASHTON. Yes, sir.

Mr. DINGELL. Thank you. You are again recognized.

Mr. ASHTON. I apologize for these charts being handwritten. They are the original charts. I did this analysis by myself because I certainly was not trying to get broad exposure for the preparation of this analysis.

The first chart is a plot of the cost at complete forecast by the Electric Boat Division for the varous attack submarines being built by Electric Boat. They are the ones covered by the public law settlement of 1978. The cost at complete in millions of man-hours per submarine in February 1980 and then again in February 1981—in 1 year the cost at complete had changed on the attack submarines by 8 million man-hours.

Now we will talk briefly at least about welding problems, and the like, later, but the total effect of the welding problems, according to the Electric Boat records, was only 3 million man-hours in that timeframe, so even if one treats the welding problem as an anomaly, there was a 5-million man-hour growth in the cost at complete in 1 year.

The next chart, please.

I started a plot of the cost at complete that came out of these biweekly performance reports. Performance report that gives the cost at complete in man-hours would be expected to be essentially a horizontal line under normal circumstances, that is, it is supposed to project what you are going to have at the end, and you would not expect it to keep going up if you are accurately depicting what is going on.

But as you can see from the beginning of 1980, up to when I started the chart, at this time it was in February 1981, the growth on just the attack submarines, actually just the flight 2, which are numbers, 700 up to 710 of the attack submarines had grown from about 65 million man-hours up to almost 70, and the welding problem on those attack submarines was no more than 30 percent of the effect. I continued to plot this after my attempts to use this presentation, which is the reason it is plotted up, until late November when I left Electric Boat for practical purposes. And as you can see, the cost at complete grew quite predictably week after week after week, and on these submarines alone, in 2 years the man-hours to build these submarines grew from about 63 million man-hours to 74 million an-hours, in just 2 years.

I did projections of what this implied in terms of finishing the submarines, which wouldn't deliver until out into the 1984 time frame. I did a variety of those, and my nominal one said there would be an eventual overrun to the contract of something like $175 to $200 million. The Navy would pay $50 million of that by the nature of the arrangement, but General Dynamics would in some form have left on the contract the remainder, or approximately $130 million.

The next chart, please.

Now, a claim frequently made while I was there was that there were initial troubles in building the initial attack submarines, but that under Mr. Veliotis' tutelage, the yard had been straightened

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out and then except for some unfortunate experiences such as the welding problem, the yard was now a very efficient submarine yard. This chart shows in millions of man-hours the actual experience at Newport News in building attack submarines, and the experience at Electric Boat Shipyard in building virtually identical attack submarines.

The welding problem on the submarines 698 and 699 was not discovered until the submarines were virtually complete. The Xs on the chart represent the cost at complete before there was any effect of the weld problem because they didn't even know they had it, and as you can see, under Mr. Veliotis' guidance, Electric Boat, at best, was coming down an expected curve from the abominable performance that was there before he arrived.

Furthermore, based upon the problems they had, which in my opinion were caused by some of the actions Mr. Veliotis had taken, the subsequent real performance was worse than it was before Mr. Veliotis showed up.

Finally, the obvious conclusion is Electric Boat was building the submarines much less efficiently than the competitive shipyard, Newport News, which I hardly think is the pearl of efficiency. Based on that, the only conclusion I could come to was that Mr. Veliotis had not improved the situation, he had made it worse, and that the performance that we were achieving was very poor.

The next chart.

Those charts address the 688's. Quickly, the Trident submarine situation was similar except it had very little profit impact on General Dynamics, because of the nature of the contract. Basically, between February 1980 and February 1981 the cost at completes had gone up by 9.2 million man-hours, and only a small portion of that was due to the weld problem.

The next chart.

The various Trident submarines were growing in cost at completes.

Could you move the chart slightly to the right, please.

This is the second Trident submarine, No. 727, and as you can see from the beginning of 1980, the projection of how many man-hours it would really take to build the submarine, which should have been constant, were quite steadily and predictably up. Only a fool would think that the real cost at complete was the one they were forecasting at any point in time, since every 2 weeks it went up.

The next chart.

This is a plot of the cost at completes for all of the submarines listed in the time period I was at Electric Boat, that is, both the Tridents and the attack submarines, and it shows the same thing. It shows that the cost at completes were going up at an amazing rate all through 1980 and continuing in 1981. I don't know what happened after I left, but in that 2-year period, the cost at completes went up 30 million man-hours, 30 million man-hours, in a shipyard that was only consuming approximately 40 million man-hours a year is an amazing increase in the cost at complete. I hardly was impressed that Mr. Veliotis had straightened out the shipyard.

The next chart.

Now, in addition to the observations of the costs, I made quite connected observations on what was going on in terms of schedule, and as a matter of fact, from the Navy's point of view, schedule was considerably more important than cost at that point in time. Mr. Veliotis claimed our problems were behind us, and was intent to deliver seven submarines, the first Trident plus six, 688's, in 1981. In order to look that way, and also to have the number of people in the shipyard that was equal to the budget, there was only one thing to do. It was to take the people who should have been working on the follow ships and put them on the lead ships, which were very visible.

The plot shows for just the first 2 months of 1981, the number of people who were working on each of the attack submarines in this case compared to the plan. If the boat was near delivery, then we worked twice as many people as the plan. If it was a long ways away, we were working about half as many people as the plan, which simply meant we were going to lose even more schedule, since it would take more people than the plan to build the boats, based upon our cost performance.

That is the 688 situation and on the next chart we have exactly the same situation on the Trident. The lead Trident was budgeted to have 600 people working on it. It had over 1,400 people on it.

Every other Trident submarine had less than the plan. The plan was based on the budget which we were not meeting.

Now, as I said earlier, the actual analysis was somewhat more thorough than I have taken the time to present to you today, but I believe it lays out a very clear situation. I will read you briefly the conclusions that are in that analysis in the presentation I have prepared.

My 688 conclusions were that, and we could have the lights on, which would be helpful—that first the present cost of completions are significantly understated; second, that manpower is being utilized to maintain the appearance of on-schedule performance.

Third, even with no additional production problems, even though they had been experiencing significant ones such as the welding problem, the scheduling and cost picture was much worse than publicized. Newport News is not the less productive, higher cost yard as Mr. Veliotis continually suggested.

My Trident conclusions were that the present costs to complete were significantly understated, that manpower was being utilized to maintain the appearance of on-schedule performance, and that the real cause of most of the schedule slippage has been and continues to be insufficient manning and/or efficiency to complete the basic task.

Therefore, my overall conclusions were that efficiency was low, costs to completion were understated, manning was too low to make the schedules, and there were no signs of any turnaround or management actions to cause one in sight.

Now, as I said earlier, I prepared this analysis intending to go forward with it to the corporate office in some form. I had already tried at various times to lay out the obvious situation at Electric Boat to Mr. Veliotis and got nowhere. It is obvious he wasn't interested in at that point in time fixing any of the problems but, rather, declaring that our problems were behind us.

There is a related item that I had talked about a couple of times in those charts that we need to digress on briefly which was the welding problem. The welding problem was only a modest part of the cost problem, as I show on the charts. It was not insignificant, but it certainly was not the total cost problem.

However, the welding problem and also the so-called bad steel problem had a solution from General Dynamics's point of view via a so-called insurance reimbursement request. Mr. Lewis has stated that he and the General Dynamics board of directors decided in approximately September of 1981 that although the corporation might have a legal claim for such reimbursement, that pursuing the claim with the Navy would have such painful effects, such as significant loss of business both in the submarine business and in other government business, that it was prudent to concede the claim for some sort of a quid pro quo.

Although my personal opinion of the insurance reimbursement request would not even support the view of winning such reimbursement in court, it was obvious in the spring of 1981 that pursuing the claim would bring highly undesirable side effects, that is, I concluded the same thing Mr. Lewis and the board concluded. Plus, I did not believe in the validity of the claim, although I am not an attorney and it wasn't my business to make that judgment.

However, I communicated my view of the flaws in the claim to Veliotis, and really could do nothing one way or the other anyway, and took no other actions with respect to that.

Now, as I said earlier, I prepared my analysis and briefing on the situation to send to Mr. Lewis, in fact had a rough draft of the letter prepared to write to Mr. Lewis with the charts and the other charts I have referred to. However, in March the official chain of command was from Veliotis to Mr. Boileau, the president of General Dynamics, to Mr. Lewis, the chairman, although I had obviously decided to go around my immediate boss, not a particularly advisable action for an executive. I decided I should at least go to Mr. Boileau, who was in authority, at least the next in the chain of command.

So I called Mr. Boileau, who I knew reasonably well, in late March. At first he did not believe my story about the nature of what was going on at Electric Boat and how poorly we were managing the situation. But I finally convinced him that I had a reasonably thorough analysis and accurate story.

He convinced me not to send the letter and the analysis to Mr. Lewis. His view was that it would simply lose me to General Dynamics, and I could concur with that. And instead, he said that there was already planned an audit team to come to Electric Boat to address the Trident booking rates and what they should be, and then that he would make sure the audit team talked to me privately, and went over my analysis. In that way they could assess the situation and the assessment would be brought forward by them rather than by me.

The audit team came in April. It was headed up by Jim Cunane, the corporate controller, and by Bill McCurdy, vice president of estimating is Bill's title, I believe. Both gentlemen I knew quite well from F-16 and other program experiences.

They came into Electric Boat, were given "escort only" visitor's badges, and proceeded to do an audit on the 688 as well as Tridents.

Mr. DINGELL. Excuse me, you say "escort only" visitor's passes?

Mr. ASHTON. Yes, sir. Mr. Veliotis chose to not allow his corporate team to have even reasonably free ability to go where they wanted to.

Mr. DINGELL. So that meant they were entirely under the control then of Mr. Veliotis?

Mr. ASHTON. In my opinion that was the intent of the escort only badges.

Now, because Mr. Boileau had talked to Messrs. McCurdy and Cunane, we had a meeting in my hotel room off the premises in which I went through the analysis that I have talked about, the charts which we have just reviewed and other charts. I told them how I arrived at that analysis, where the information came from. I believe it was helpful to them to go get the same information which in fact was reasonably readily available as long as you knew how to interpret it.

Soon after that team was in Electric Boat I talked to Gorden MacDonald, sometime in April, right after Easter vacation—right after Easter in that spring, and described the situation as I saw it at Electric Boat to Mr. MacDonald.

In the same timeframe I also talked to Warren Sullivan, who was the head of industrial relations in the corporate office. Mr. MacDonald and Mr. Sullivan consistently told me to sit tight and let the process work, and I attempted to do that.

Mr. McCurdy's team had their results by early May. I have seen those results. They basically confirm my analysis except that McCurdy was a little more optimistic than I was, which by later in the year the actuals were above his projection, but basically Mr. McCurdy confirmed approximately my assessment of the situation.

Mr. DINGELL. Excuse me, Mr. Ashton. Do you have copies of the assessment made by the assessment team?

Mr. ASHTON. I have the—I have a copy of a General Dynamics private information report prepared by Mr. McCurdy.

Mr. DINGELL. Could you submit that to the committee please? We will also ask for similar copies from the company.

Mr. ASHTON. I am sorry, I can't hear you, sir.

Mr. DINGELL. Would you submit that to the committee? We will also ask for similar copies from the corporation.

Mr. ASHTON. Sir, I have been careful to not disclose what I consider competitive and private information of General Dynamics. I don't have any objection to giving it to you, but I believe you would be—it would be more appropriate if you got that report directly from General Dynamics.

Mr. DINGELL. Let me say this. Your behavior, I believe, throughout this matter has been exemplary. The record will so indicate.

It is not the intention of the committee at this time to take any steps in terms of impairing the competitive position of General Dynamics. I believe the record will indicate that that is bad enough.

We will retain this information. We will review it with care. We will consult with you and with General Dynamics regarding that. I commend you for your attention to this matter. But we would like to have it for the record because truthfully we want to compare it to what we get from General Dynamics.

Mr. **Ashton**. OK.

Mr. **Dingell**. I will even give you this assurance, that you will be consulted before any action is taken with regard to the document after it has been reviewed by the staff.

Mr. **Ashton**. OK.

Mr. **Dingell**. You continue to be recognized, sir.

Mr. **Ashton**. Thank you, sir.

I was told by Mr. McCurdy that he presented the situation and analysis—that is, his report—to Mr. MacDonald sometime in approximately mid-May. I was told that it was presented to Mr. Lewis in late June. I only know such things by hearsay.

Mr. McCurdy and I talked frequently over the ensuing months, as did Jim Cunane and I, comparing the ever worsening numbers which continued to grow through the summer and early fall. By mid-August, I had no other communication. And there was no apparent action. And as you might suspect, I was extremely uneasy since I was virtually excluded from any of the real activities at Electric Boat by the top management.

I initiated a call to Mr. Lewis on August 18—actually started somewhat earlier than that—but on August 18 Mr. Lewis and I had approximately a 1-hour conversation. I basically related the situation as I saw it at Electric Boat just as I have to you gentlemen this morning and also related to him that if Mr. Veliotis had a vote, I obviously wasn't going to be the general manager.

If that was the situation I suggested to Mr. Lewis that he ought to tell me so that I could move on and go do something else. He called me early on the morning of August 19 and told me to "sit tight" and also "don't lose any more sleep" over this situation. I was hopeful that not necessarily was it a sure thing that I was going to end up as general manager but at least some actions would be taken to improve what I saw as an ever worsening situation in the boatyard.

In September and early October, October 5 in particular, which is the Sunday before the tape recording which has a certain notariety, there were many newspaper articles suggesting that Mr. Veliotis was leaving and some suggesting I was the likely replacement, one article in particular giving rather accurate assessment of the 688 overrun situation.

I believe that Mr. Veliotis had convinced Mr. Lewis and others that I gave this information to the newspapers. I assure you that I did not talk to the newspapers. The Navy had almost identical analyses to mine. The Navy had the same kind of numbers. They had had it since before I had them.

I presume that the source of Mr. Stet's information was the Government, although he certainly won't tell me, and I doubt if he will tell anyone else.

Eventually, after the Trident was delivered on October 31 and it was commissioned in mid-November, on the Monday following the commissioning, Mr. Warren Sullivan called me at my home. Mr. Sullivan, to remind you, was the head of industrial relations—and told me Mr. Fred Tovar would be the new general manager of Electric Boat, and I didn't get the job because I wasn't a "team player."

Although Mr. Lewis suggests in his prepared remarks that Mr. Veliotis said I wasn't doing an adequate job running the engineering department, no one, including Mr. Veliotis, Mr. Sullivan, no one ever told me that in any form during 1981.

Mr. **Dingell**. Excuse me. What were your efficiency ratings? I assume you were rated by the company, were you not, during this period of time?

Mr. **Ashton**. I was not. I did receive a raise in July 1981 of $8,000 on the basis of $72,000, which I considered a good raise. Insofar as that is an evaluation of performance, you would have to say that in July I would have been led to believe that they had not given up on me. But I had no formal evaluation at any time in my stay at Electric Boat.

Mr. **Dingell**. Was it the practice of the corporation to rate employees according to their efficiency, and to do so periodically?

Mr. **Ashton**. It is the practice of the corporation, or was at that time, to do that thoroughly at the lower levels of management and of professional employees but sporadically and not necessarily thoroughly at the higher levels of management.

Mr. **Dingell**. Thank you.

Mr. **Ashton**. That concludes my somewhat prepared remarks. I appreciate your attention. I would be happy to try to answer any questions that may clarify the situation. Again I thank you for your attention.

Mr. **Dingell**. Mr. Ashton, the Chair wishes to commend you for a very helpful and a very carefully prepared statement which you have given to the subcommittee. It is the practice under the rules to recognize members for 5 minutes. The Chair will recognize members for 10 minutes, because of the complexity of the questions. But the Chair does ask that members shall proceed as expeditiously as possible in the course of their proceedings.

You have established, Mr. Ashton, to the satisfaction of the Chair that you are both a patriotic and concerned American, and I commend you for the assistance you have given the committee.

First, would you inform the committee about when you left the corporation, under what circumstances you left, who was in attendance at the time of your departure, and of what papers and actions accompanied that departure?

Mr. **Ashton**. Mr. Sullivan and I discussed what the desire of General Dynamics was the day after he told me that Mr. Tovar would get the job. It was a somewhat muddled situation in my mind at least whether they were insisting that I leave the company versus just leaving Electric Boat. It was clear to everybody—them and me—that there was no point in me staying at Electric Boat.

But after an exchange of telephone calls that following day, it was agreed that the party line would be that I requested reassignment to another division for other opportunities. I stayed informally at Electric Boat in and out for another couple of weeks and then began actively my job search immediately to find another job.

It became clear to me that General Dynamics desired that I find a job elsewhere, and I set out to do that. I did not officially leave the payroll until, I believe, April 2, 1982. There is only a one-page letter from Mr. Warren Sullivan having to do with the termination agreement which amounts to the fact that they allowed me to receive the future bonus payments I had previously been granted and earned and a $16,000 payment related to the fact that I still had a house in Fort Worth and then also had a house in Connecticut.

There was no other consideration than that, as I recall.

Mr. DINGELL. Do you have any——

Mr. ASHTON. There was nobody present when I left. I simply left.

Mr. DINGELL [continuing]. Did you have any discussions with Mr. Lewis, Mr. MacDonald, or Mr. Veliotis, prior to your departure, about your leaving?

Mr. ASHTON. I had no discussions with any of those gentlemen after I had talked with Mr. Sullivan except for a very brief telephone conversation at the end of March 1982 with Mr. Lewis, which was not substantive in at least my view.

Mr. DINGELL. You have referred to Mr. McCurdy and his headquarters team and the finding or, rather, the findings of that particular committee. Were those findings written?

Mr. ASHTON. Mr. McCurdy's results were as typically done in a cost-to-complete analysis within General Dynamics, that is, Bill McCurdy is an excellent estimator. His job much of the time is to estimate things that are to be built or things that are partly built, that is for proposals or for cost-to-complete. And he prepared a typical fairly technical document, analysis, that showed a most optimistic, most probable and a most pessimistic result for the 688's and for the Trident submarines and profit implications of each of them.

Mr. DINGELL. He did prepare such a device?

Mr. ASHTON. Yes. That is the document you asked for previously.

Mr. DINGELL. What was the practice of General Dynamics when such a document was prepared by a person like Mr. McCurdy? Was that forwarded to Mr. Lewis?

Mr. ASHTON. Well, I don't know in this circumstance exactly when Mr. McCurdy went forward. As I said earlier, I believe he talked to Mr. MacDonald no later than mid-May with the report.

Mr. DINGELL. Mid-May of——

Mr. ASHTON. 1981, and to Mr. Lewis—by hearsay only—by the end of June 1981.

Mr. DINGELL [continuing]. Was a record——

Mr. ASHTON. It is somewhat surprising to me if it really did take that long because, you know, one of Mr. Lewis' many admirable capabilities is the ability to stay right on top of what is going on in the corporation; and that certainly was a major issue. It is surprising that it could have taken until the end of June, but that is what Mr. McCurdy told me.

Mr. DINGELL. Mr. McCurdy told you he had delivered it by the end of June to them?

Mr. ASHTON. Yes.

Mr. SIKORSKI. Mr. Chairman.

Mr. DINGELL. Was there a regular practice for delivering those kinds of documents and for corporate review of actions of the kind taken by Mr. McCurdy in connection with his review?

Mr. ASHTON. I believe so.

Mr. DINGELL. What was that?

Mr. ASHTON. The normal actions—my experience at least had been that any significant assessment such as that was reviewed at least informally very rapidly by the top executive officers of the corporation, but not necessarily in a formal mode. I don't know what they did or do in a formal mode about such analyses.

Mr. **Dingell**. But under good administration that would have been under continuous review, or at least review at the earliest moment possible after it left the hands of Mr. McCurdy?

Mr. **Ashton**. Based on my previous experience at Fort Worth, I would have expected virtually instantaneous observations of such data as it would have been on the F-16. On the other hand, there were many things about the relationship between the corporate office and Mr. Veliotis and Electric Boat that appeared to be totally different.

Mr. **Dingell**. Now, did you ask for——

Mr. **Sikorski**. Mr. Chairman, the June date as this witness has testified, was when the formal document was prepared and presented to Mr. Lewis at that time according to Mr. McCurdy, is that it?

Mr. **Ashton**. That is what I was told.

Mr. **Sikorski**. You are not aware of any briefings that may or may not have occurred prior to that time?

Mr. **Ashton**. I don't know of any.

Mr. **Sikorski**. Thank you very much.

Mr. **Dingell**. Can you inform us of the reactions of the different corporate executives to the news of the cost overruns and the scheduling problems? Start with Mr. Lewis and work through Mr. MacDonald and some of the others. What was the response of Mr. Lewis to this matter?

Mr. **Ashton**. Well, to remind you, the only time I talked to Mr. Lewis was in that August 18 and 19 telephone conversation in which we covered a broad range of my assessment of what was going on. I would have to tell you that mostly Mr. Lewis listened to me, did not try to argue with me. But that is not necessarily the same as saying that he concurred with what I was telling him.

Mr. **Dingell**. He appeared to be receiving information?

Mr. **Ashton**. He allowed me, I have the notes from the telephone conversation. He allowed me to go through my three pages of notes telling him the situation as I understood them and telling him the situation between Mr. Veliotis and me. We then discussed at some length the lack of rapport, if I can use that description, between Veliotis and me and his initial position before the telephone conversation the following morning, is that I should go have a sort of confrontation with Mr. Veliotis, that we were not getting along but that we had to work this thing out together.

By the following morning he suggested that my position, the previous evening, which was that I was willing to do that but it wouldn't do any good—was probably correct and that I should not go have such a conversation with Mr. Veliotis.

In summary, I believe he received the information but I can't—I certainly did not know that he concurred or disagreed. He did neither actively.

Mr. **Dingell**. Did he call you the following morning to make that suggestion?

Mr. **Ashton**. Yes; he did.

Mr. **Dingell**. He did?

Mr. **Ashton**. He called me at 7 o'clock St. Louis time to tell me not to go forward and talk to Mr. Veliotis.

Mr. **Dingell**. Had you talked to Mr. Veliotis at that time?

Mr. **Ashton**. No, sir. Mr. Veliotis never was in the plant that early in the morning.

Mr. **Dingell**. Did Mr. Lewis have any comments about the reliability or correctness of your cost analysis or Mr. McCurdy's findings with respect to cost analysis or timeliness?

Mr. **Ashton**. I don't remember any such observation on his part.

Mr. **Dingell**. In either of the two discussions?

Mr. **Ashton**. In neither of the discussions.

Mr. **Dingell**. Did you have discussions of these matters with Mr. MacDonald?

Mr. **Ashton**. I discussed them with Mr. MacDonald by telephone in April, the week after Easter in April 1981. I think Mr. MacDonald's—I would characterize my view of his reaction as sounding like he agreed that I was probably right about what the situation was and that action would be taken to go do something about it.

That was my view of what Gorden was trying to communicate to me.

Mr. **Dingell**. Was there any question in your mind that both Mr. MacDonald and Mr. Lewis had been fully informed of the events under regular corporate practices by the time as indicated by you in your comments?

Mr. **Ashton**. No; I don't have any doubt of that.

Mr. **Dingell**. Thank you.

The Chair's time has expired. The Chair recognizes now the gentleman from Oregon, Mr. Wyden.

Mr. **Wyden**. Thank you, Mr. Chairman.

Just very briefly and I, too, Mr. Ashton, feel your testimony was just excellent. Based on your observations in the 1980–81 period, do you believe that the large overruns leading to the public law settlement were caused by Navy-imposed changes as General Dynamics has claimed?

Mr. **Ashton**. Well, first of all, you must remember when I answer this question that I was not there in the period of the early 1970's and leading up to the public law settlement or certainly up to the claims submittals. If I can read between the lines a little bit before I answer the question, the issue is twofold with respect to at least the folks submitting those claims. It is were they in fact appropriate and accurate, and did they know whether they were appropriate and accurate?

It is my opinion, and I think some of the data I showed you on one of the charts shows clearly, that the cause of the major overruns to the original contract prices or a very significant part of that was extremely unlikely to be because of Navy-imposed changes. If it was because of Navy-imposed changes, then the Newport News Shipyard would have experienced at least the same amount of trouble. Mr. Veliotis in his testimony in the spring of 1981 suggested the reason they didn't have as much effect is because they—Newport News—were the design agent. That is, under the best of situations, not a very good argument.

But it certainly didn't apply by the time Mr. Veliotis was there in the late 1970's and early 1980's. It is also clear from the data that Electric Boat wasn't getting any better.

So the result of all of that is that if it was changes that caused the problem, they would have gotten dramatically better when the changes went away. They didn't get better, they got worse when the change went away. So, it is unlikely that that was the real cause.

However, I think it is only fair to say that many people delude themselves in the manufacturing business of this world into believing that they would do just wonderful if all the changes would quit. And therefore, it is entirely possible that the people believed that the changes were the real cause of all their problems even though I don't believe the facts support that at all.

Mr. WYDEN. Just a couple other questions very briefly. You testified you didn't believe Mr. Lewis would condone this mismanagement if he was fully aware of it. And it seems to me what you have painted, and extraordinarily well, is an amazing picture of mismanagement and incompetence.

Having said that about Mr. Lewis, you didn't believe he would condone this mismanagement—did later events make you change your mind in any way with respect to that point?

Mr. ASHTON. Without trying to interpret the tape recording, I found my whole experience in Electric Boat and the acceptance of what went on there as totally disjointed from my experience within General Dynamics before that, including my experience with Mr. Lewis.

Mr. Lewis required and drove folks toward good performance at the other divisions in which I had worked and insisted on what I considered exactly the right sort of behavior. And yet at Electric Boat we did the exact opposite in virtually every way. I have no explanation for that.

Mr. WYDEN. Do you think Mr. Lewis was aware of your analysis prior to your August conversation?

Mr. ASHTON. Yes, I believe he probably was. I cannot believe that Mr. McCurdy would present his analysis without making it clear some of the thought processes and where to get the information—but I don't know that.

Mr. WYDEN. One last question. Do you think Mr. Boileau—I don't know if I am pronouncing that right——

Mr. ASHTON. Boy-low.

Mr. WYDEN [continuing]. Told Mr. Lewis of your concerns when Mr. Boileau learned of them?

Mr. ASHTON. I don't know, I guess my own suspicion is that he did not at that point in time. There were funny dynamics within General Dynamics at the top at that point in time. As I said, Mr. Veliotis officially reported to Mr. Boileau, according to the organization charts. But Mr. Boileau was generally not allowed to come to the shipyard without Mr. Veliotis' permission as I understood it. So, it was not clear to me that Boileau would not keep it private for a while so that he could start to get a one-up position. I really don't know, however.

Mr. WYDEN. How about MacDonald?

Mr. **Ashton**. My experience with Mr. MacDonald is that he and Mr. Lewis communicate closely and regularly on virtually everything. I would have expected him to be talking to Mr. Lewis, but I don't know.

Mr. **Wyden**. Do you agree with the conclusion that further dissemination of your analysis would have jeopardized your position at General Dynamics?

Mr. **Ashton**. I guess I am not sure of the question there.

If Mr. Veliotis overtly knew that I had both the analysis and was attempting to clearly give it to Mr. McCurdy and the like, he would have turned the wick up even higher toward getting rid of me.

Mr. **Wyden**. I think because we have a lot to go, I will break my questioning off. You described the situation at General Dynamics as funny dynamics. Unfortunately, there aren't any taxpayers laughing and because of you candor and your straightforwardness hopefully we will be able to clear this up much faster. I commend you for it.

Thank you very much.

Mr. **Dingell**. The Chair thanks the gentleman. The Chair recognizes the gentleman from Minnesota, Mr. Sikorski.

Mr. **Sikorski**. Thank you, Mr. Chairman.

Mr. Ashton, one question. You are familiar with at least the transcript of the recorded coversation between Mr. Lewis and Mr. Veliotis of October 7, 1981, with Mr. Sullivan and Mr. MacDonald evidently on the speaker phone as well?

Mr. **Ashton**. I am.

Mr. **Sikorski**. Thank you.

Thank you, Mr. Chairman.

Mr. **Dingell**. The Chair recognizes the gentleman from Florida, Mr. Bilirakis.

Mr. **Bilirakis**. Thank you, Mr. Chairman.

Mr. Ashton, what type of contract was this? Was this a fixed price contract?

Mr. **Ashton**. The 688 contracts which I was addressing were fixed price incentive contracts set in the spring of 1978 with the public law settlement where General Dynamics absorbed some of the overrun and the Navy absorbed the rest. The nature of that contract was a 50-50 share line for the first $100 million plus or minus from that public law settlement, and full fixed price after that.

The Trident submarine contract was very close to cost-plus, officially it is a fixed price incentive contract also. But it is, it had either a 90-10 share line, 90 percent cost borne by the Government, or 95-5 to 5 with a large ceiling relative to where the costs were, so that in practice it operated more like a cost plus contract.

In addition to that, the Trident submarine contract had normal, but as I believe as it turns out only by happenstance, generous escalation provisions. The nature of that was such that even though General Dynamics spent almost twice as many man-hours building the first four Trident submarines as the proposal, the costs when escalated came in approximately as proposed.

So, although that is a long answer to your question, it translates into essentially cost plus on the Trident in terms of how it operated and essentially fixed price on the attack submarines.

Mr. BILIRAKIS. In both instances though, if the increase in the man-hours was the result of Navy-imposed changes we would have had change orders. Isn't that correct?

Mr. ASHTON. That is correct.

Mr. BILIRAKIS. Did we have change orders?

Mr. ASHTON. Yes; we had change orders. And we had a system while I was there to identify which changes were caused by the design agent and therefore were Navy-imposed changes, and the contractor was entitled to additional costs; and which ones were caused by construction yard problems, where the design agent was helping the yard, and therefore the construction yard isn't entitled to additional costs. And those were identified and debated on a regular basis.

So the cost overruns in the period I was there were in general funded if they were caused by design changes. It turns out that in that time period the cost impacts of all the changes going on caused by the design agent were a very small part of the total labor being expended—using the company's own numbers.

Mr. BILIRAKIS. That doesn't figure, does it? I mean, there should be a relationship between the labor being expended—

Mr. ASHTON. My point is on the Trident submarine, for example, in the year that I was there or the year, the latter half of 1980 and first half of 1981, the total change order costs on the Trident submarine, if all of that money requested by the company was labor costs, and it wasn't all labor costs, it also involved material and that is the company's own numbers, if you use it all as labor and use the company's numbers, it still only represented 5 percent of the labor being expended on building the Trident submarine.

So, even in the worst possible case the effect of design changes from the design agent couldn't have been more than 5 percent in that period.

Mr. BILIRAKIS. So you would say then that by and large the largest portion of the cost overruns were not attributable to Navy-imposed changes?

Mr. ASHTON. They definitely were not due to Navy-imposed changes in the period when I was there.

Mr. BILIRAKIS. All right. But even during the period prior to the time that you came there, it is a black and white type of thing, isn't it, as to what result in the change orders, whether it was Navy imposed or whether the result of design changes?

Mr. ASHTON. It is reasonably clear when you have Navy-imposed changes, that is changes caused by the design agent versus when you have changes because of the yard. But it is certainly not black and white how much those changes disrupt things and therefore how much they cost.

My point with respect to the period I was there is, even if you use the company's assessment, which doesn't tend to be low, it wasn't a big effect. In the previous years I wasn't there and the big argument is how much disruption did those changes cause.

Mr. BILIRAKIS. Your tenure you—you had worked for General Dynamics for many years but——

Mr. ASHTON. Fourteen years before going up there.

Mr. BILIRAKIS [continuing]. Fourteen years. And your experience with them in the other locations was a good experience?

Mr. ASHTON [continuing]. It was——

Mr. BILIRAKIS. Obviously.

Mr. ASHTON. It was good from my point of view and I think valuable to the company also.

Mr. BILIRAKIS. Right.

What type of contracts were you accustomed to before coming to the Electric Boat yard?

Mr. ASHTON. The most significant contracts I had worked on in size and in terms of effect on the corporation were the F-16 contracts. The F-16 contracts because of the many customers are fairly complicated. But for practical purposes most of them were fixed price incentive contracts with ceilings not terribly far above the target cost. So they operated as true fixed price incentive contracts or sometimes almost as fixed price contracts.

Mr. BILIRAKIS. Do these incentive contracts also have disincentive clauses, in other words, punishment type clauses?

Mr. ASHTON. Yes, true incentive contracts.

Mr. BILIRAKIS. True incentive, OK.

The welding problem that you refer to, sir, very briefly what was the welding problem and who is responsible for it? And did that result in any of the change orders?

Mr. ASHTON. The welding problem I guess can be described as the discovery at the end of 1979, beginning of 1980, just before delivery of No. 698 of the 688 attack subs. Certain welds were either missing or were not inspected or at least the documentation of the inspection was gone, and it was required.

There is a disagreement between Veliotis' testimony in the spring of 1981 and Admiral Fowler's testimony 2 weeks earlier in the spring of 1981 as to whether General Dynamics took rapid actions to go discover whether these identified missing welds were minor or part of a series or whether General Dynamics took active efforts to go determine this. I wasn't there but I believe the sequence described by Admiral Fowler is probably accurate, which says that Veliotis and his team dragged their feet and kept trying to not look to see whether they had an endemic problem.

It turns out that the more investigation was done, the more welds were found that were either missing or improperly inspected or not inspected. This ended up requiring a very large effort by the contractor including tearing apart parts of the built ships to find the welds and inspect them or repair them.

Why did that happen? Well, that is a subjective sort of a thing. In my opinion it was a direct result of the approach that Mr. Veliotis took when he came to the shipyard late in 1977. Mr. Veliotis arrived and laid off a very large number of people, primarily overhead people, the kind of people who support the direct touch labor builders in the shipyard. He also in the process of getting discipline but also putting tremendous pressure on for schedule and cost performance, put intense pressure on people to go get the work done. Well, the combination of intense pressure on workers to get it done on schedule no matter what, and having laid off many of the checks and balances that are supposed to keep you from not doing the job——

Mr. BILIRAKIS. Quality control people in effect?

Mr. Ashton. Quality control folks and production engineering folks, that combination allowed the shipyard to get sloppier and sloppier with respect to the process of controlling building those submarines. And I believe that that is the reason that we ended up with a massive weld problem that was discovered right at the end of 1979.

Mr. Bilirakis. So there was nothing wrong with the design as such, it was merely a quality control problem?

Mr. Ashton. Nothing wrong, right. But again I must tell you I was not there when the welds were discovered. I am only giving you my opinion on back tracking back through the period from when I was there in 1981.

Mr. Bilirakis. Thank you very much. My time is up. Thank you, Mr. Ashton.

Mr. Dingell. The time of the gentleman has expired. The Chair recognizes the gentleman from Texas.

Mr. Bryant. Mr. Ashton, if you would, if you feel comfortable doing it, would you attempt to anticipate what Mr. Lewis' response will be to the testimony you have given today to the committee and then answer what you anticipate that response will be.

Mr. Ashton. Double guessing?

Mr. Bryant. Yes.

Mr. Ashton. Well, I am not sure what Mr. Lewis is going to say. I am kind of in a funny position. I guess I will say for him what I would say and maybe is true, I believe that in 1981 Mr. Lewis believed Takis Veliotis consistently with regard to what was going on at the shipyard and with regard to Jim Ashton. By consistently believing what Mr. Veliotis said of my behavior and my situation and the situation in the shipyard, then I was a considerable—based on that set of observations—a considerable malcontent and certainly a pain in his side.

With the premise, that is, that Veliotis was giving a straight story of what was going on—then subsequent behavior of getting me out of the corporation, is probably to be expected.

I would only rebut in a funny sort of a way that Mr. Lewis and I both believe at this point in time that Takis Veliotis is a dishonest, unethical manager.

Mr. Bryant. But the charts that you showed us and conclusions you draw from the charts were verified by others in the company after you came up with the information. Every reasonable presumption would be that Mr. Lewis saw that information. Mr. MacDonald and others saw that information. Do you have doubts that they saw it?

Mr. Ashton. No, sir.

Mr. Bryant. Doubts they understood it? If you assume they did see it and did understand it, what possible reason is there for their failing to act on it?

Mr. Ashton. Well, at the risk of accusing those very intelligent folks of not being bright enough at that point in time, it was not that hard to listen to Mr. Veliotis and conclude that even if you had large overruns they were all caused by bad luck, you know, somehow we had a bunch of welding problems and it was just like the bad steel and those things happen, and that's the only reason we're having trouble, we really got a great shipyard.

I think that was pure B.S., but I believe that was Mr. Veliotis' position. Those of you who have been around Mr. Veliotis know he is a commanding presence and it is easy to get lulled into believing that what he is telling you must be true.

Mr. **Bryant**. You are aware of no other potential explanation for the difference in the kind of judgment and stewardship exercised by Mr. Lewis and others with respect to Electric Boat, in exercises of——

Mr. **Ashton**. That is the only one that I can conceive of.

Mr. **Bryant** [continuing]. OK.

Mr. **Dingell**. Would the gentleman yield?

Mr. **Bryant**. Yes.

Mr. **Dingell**. Bad steel got in because there was not adequate quality control to catch the bad steel coming in, isn't that so?

Mr. **Ashton**. That is true, but in my opinion the bad steel problem occurred first of all before Veliotis got there and is not that unusual a problem in the defense business. It is difficult to catch the kinds of things that happened relative to that bad steel getting into the warehouse in anybody's quality control system.

Mr. **Dingell**. That bad steel problem also occasioned the cutting of steel out of finished vessels, did it not, for replacement in vessels under construction?

Mr. **Ashton**. It did, sir, but again the response by Electric Boat to the bad steel problem appears to have been at least fairly reasonable and aggressive. I don't think that problem occurred because of gross mismanagement. I believe, on the other hand, the welding problem which involved not a few instances disconnected from doing the job but rather thousands of instances in the everyday process of building the submarines, was a direct result of a failed control system.

Mr. **Dingell**. The bad steel did require, however, the cutting of steel out of existing vessels?

Mr. **Ashton**. Yes; it did.

Mr. **Dingell**. The Chair thanks the gentleman.

Mr. **Bryant**. You stated earlier and a moment ago again you characterized Mr. Veliotis as dishonest, unethical, and inaccurate. When did you begin to conclude that? When did you begin to suspect it?

Mr. **Ashton**. Well, by Christmastime of 1980 I was convinced—although I certainly didn't have enough analysis pulled together to prove it to anybody—but I was convinced that Mr. Lewis and Mr. Veliotis' portrayal of the situation and my situation at Electric Boat was not even vaguely correct. At that point in time I was convinced that Veliotis knew that all the way along and, therefore, I guess I was concluding that assessment of Mr. Veliotis by about Christmas of 1980.

Mr. **Bryant**. Did you have reason to suspect him of participation in the kickbacks he accused of taking or anything else of that type of extreme unethical nature?

Mr. **Ashton**. No, sir.

Mr. **Bryant**. I assume that you had a security clearance for your work at General Dynamics?

Mr. **Ashton**. Top secret, sir.

Mr. **Bryant**. OK.

Are you familiar with a document that was entitled "General Dynamics Electric Boat Division, Third Quarter 1982 Performance Review"? And another one entitled "General Dynamics Electric Boat Division 1983 Proposed Operating Plan"?

Mr. ASHTON. That was after my tenure with the company.

Mr. BRYANT. I should have asked my question this way. Were you familiar with those types of documents in previous years?

Mr. ASHTON. Yes, sir.

Mr. BRYANT. OK.

How would you characterize those in terms of their sensitivity? Are they classified documents?

Mr. ASHTON. In terms of sensitivity to national defense, occasionally probably sensitive, much of the time not a very sensitive—that's not a very gutty issue from a security point of view. With respect to company proprietary interest, extremely sensitive.

Now, you know, it depends on which one you are talking about, whether there were considerations from a national defense point of view. Sometimes there were, and they could be significant, but on average, I would say those documents were not very interesting from that point of view.

Mr. BRYANT. These two which were prepared as you said after you left the company, contain information with respect to production methods, hull and internal structural features, as well as nuclear propulsion plant machinery arrangements.

That kind of information I understand is sensitive, is that correct?

Mr. ASHTON. Yes; my judgment would be that that is pretty sensitive stuff.

Mr. BRYANT. Anything that relates to submarine speed, propulsion plant characteristics, survivability and vulnerability, I assume would fall in that pretty sensitive category. Is that correct?

Mr. ASHTON. Definitely does. But let me clarify, you know, it depends in which context you present that kind of information, whether it is useful to folks but, yes, those subject matters are sensitive.

Mr. BRYANT. During the time you are at Electric Boat were you aware of any—I am sure every company has internal politics—but were you aware of any that related particularly to Mr. Veliotis and his team or his political friends? I use the term political in an intracorporate sense and those who maybe weren't. Were you aware of a lineup like that?

Mr. ASHTON. I am not sure. You know, at Electric Boat it was very clear that Mr. Veliotis had his own inner team. It tended to be the team he brought with him from Quincy, augmented slightly by some additions at EB. The best I could tell, the requirement to be on that team was, first and foremost, total loyalty to the party line, competence not being a particular requirement.

Mr. BRYANT. He left I think in June of 1982. Are you aware did he leave some of those people behind there?

Mr. ASHTON. Yes; he did.

Mr. BRYANT. Are you aware if some of them are still there today?

Mr. ASHTON. Yes; they are.

Mr. **Bryant**. I wonder if you have been made aware of the fact that Mr. Veliotis showed up in possession of the documents that I just described over in Greece, documents which were published about 4 months after he left the company, and he came into possession of them even longer ago. Excuse me, Mr. Chairman——

Mr. **Dingell**. Go ahead, finish your question.

Mr. **Bryant**. My question is: Do you have any idea who in that company may have given those documents to him?

Mr. **Ashton**. I don't have any firsthand knowledge. Mr. Veliotis clearly had some very close colleagues that worked with him, primarily the team that came down with him from Quincy when he arrived at Electric Boat.

Mr. **Bryant**. That are still there?

Mr. **Ashton**. At least some of them are still here.

Mr. **Bryant**. Who passed the test for team membership that you described earlier?

Mr. **Ashton**. Definitely.

Mr. **Bryant**. Thank you very much.

Mr. **Dingell**. The time of the gentleman has expired.

The gentleman from Ohio, Mr. Eckart.

Mr. **Eckart**. Thank you very much.

Mr. Ashton, you stated near the conclusion of your statement that as you talked about the analysis you prepared about how the 688 program and the Tridents were coming in all out of whack, that the Navy had all the same information, the "same numbers" is your quote; they had, in fact, probably even had this prior to your analysis.

To your knowledge, what action did the Navy take with that information?

Mr. **Ashton**. First of all, the source of all of my analysis or virtually all of it, and firsthand observations, come out of cost-performance reports, as I said, that come out biweekly, and that exact same information is given to the Navy. The Navy had prepared their own analysis by at least the beginning of February 1981. I am presuming they had it before that.

That is when I became aware of it, which, although they did not have a primary interest in whether General Dynamics would or would not make money on the contracts, even included in the assessment where General Dynamics was on the share line from a profitability point of view. Furthermore, the Navy had communicated some of those kinds of observations directly to Veliotis at various times when he was there. As late as September 1981 the admiral in charge of the superintendent of ships office wrote a couple of memos to Mr. Veliotis that laid out the same sort of discrepancies between the public position and the actual results that I have talked about.

As to what did the Navy do with the information in the long term, it isn't clear they ever did anything with it. I guess my observation is after the storm in the spring and summer of 1981 between the Navy and Electric Boat and General Dynamics, the problem suddenly went away. And I have not heard much—of course, I don't have first-hand observations since then—I haven't heard anything about there being performance problems anymore, which it was either a miraculous cure or a change in attitude.

You know, I just don't have any information.

Mr. ECKART. Mr. Chairman, I would suggest that based on this testimony it would be very helpful if we got the Navy in here to examine their response because it clearly is either a miraculous cure or once the public pressure subsided the Navy abdicated its responsibilities as well to be thoughtful and oversightful.

Let me move to one other point. You described four particular problems: cost overrun, not coming out in June but in October, the problems were not behind us, ones of serious mismanagement. And the fourth one you cited was that the relationship between EB and the Navy was extremely adversarial and deceitful—your words—adversarial and deceitful.

What specific examples of deceit would you give to this committee for consideration based on your experience in the statement you earlier made?

Mr. ASHTON. Let me just give you one that pops in mind, not necessarily a particularly significant one.

In Admiral Fowler's testimony before the Sea Power Subcommittee in March 1981, he goes through a litany of problems trying to get the contractor to address the problem with the welds. In my opinion and, again, I wasn't there, that was an accurate description of what went on. Veliotis and his team did almost anything to avoid having to address the problem, that is to downplay it and act like the weld problem didn't exist.

It did exist. That was 180 degrees the opposite of the kind of response that I had grown to expect from both the customer and the contractor on programs such as the F-16.

We had, for example, a problem with so-called soft aluminum on the F-16, the whole country had the problem. And we damn near turned the airplanes inside out even though our records were almost perfect, to make sure we didn't have any such problem. We did much of it voluntarily. That was what I expected in terms of behavior toward the customer. But the attitude at Electric Boat was exactly the opposite: "Prove to me you got a problem and maybe I'll look."

The weld problem is one of those problems.

Mr. ECKART. Given your performance on the F-16, which has proven to be one of the hottest airplanes around, in terms of quality and performance, how is it that you were able to be so successful with the F-16, which is a part of GD, yet given the public disclosures in 1981, there was no attention from management above you to the quality control problems with the Trident?

Mr. ASHTON. As I have said earlier, the difference in behavior and attitudes toward Electric Boat and what was going on there from my previous experience was amazing to me at the time, and I guess still is somewhat amazing, not very explainable.

I would like to point out that conducting business the way we did at Fort Worth, which I believe is an appropriate legal, ethical way, was also highly profitable for General Dynamics, and exceptionally good for the U.S. Air Force, which receive an airplane at a good price, and they received it when they expected to get it, and it is a super airplane. So I guess my point only is the approach to business that had been espoused and practiced worked, and why we didn't do that at Electric Boat I do not know.

Mr. ECKART. You said that you approached Mr. Lewis based on the analysis that you had done, because you thought that if he really knew what was going on, he would make the appropriate response. Obviously, he encouraged, or at least the corporate attitude was one of encouragement in your product development of the F-16, but when you confronted the management above you with revelations of ineptitude concerning EB, you found yourself, I would use the word, "sandbagged." Can you ascribe to that sandbagging a motive?

Mr. ASHTON. Well, I think the motive up to Veliotis was clear. Mr. Veliotis wanted nothing to do with someone suggesting that he hadn't straightened out the shipyard and wasn't the world's "greatest shipbuilder." And since the facts didn't support that, anybody who wanted to talk about the facts wasn't very popular.

Why—if I can use the term—why Mr. Lewis and other corporate officers appeared to have a total blind spot toward Electric Boat and the way we conducted business was and is beyond me. Maybe my perception before about our ways of conducting business were wrong, or maybe they had a blind spot with respect to Electric Boat for some reason that I can't explain.

Mr. ECKART. Why do you suspect that Mr. Lewis was not kept abreast of what was transpiring at EB in light of its large cash flow and substantial contribution to General Dynamics overall?

Mr. ASHTON. I used to suggest to folks that there must be some pornographic pictures. I really have no idea.

Mr. ECKART. It would seem to me rather ironic, then, and I will obviously pursue this with Mr. Lewis directly, that given your performance with the F-16, your track record with General Dynamics heretofore had been very good and apparently the dissatisfaction was clear with Mr. Veliotis. Why did they turn away from the siren crying to them, in light of both the public and private disclosures that were taking place here on the Hill and privately within their boardroom?

Mr. ASHTON. I don't know. I continued to believe at least until last summer that Mr. Lewis had been totally fooled by Mr. Veliotis. Maybe I just want to believe that, or maybe he was. It is a little harder to believe that after the revelations on the tape, although there may be some explanation for that. I have never heard any explanation of it, so I don't know.

Mr. ECKART. It would seem pretty hard to this Member from Ohio to believe, given your track record, and given the public disclosures concerning EB's performance on the Trident and the cost overruns on the attack submarine, and the apparent growing dissatisfaction within the corporation concerning Mr. Veliotis' performance, who they would choose to take sides with.

I thank the witness. I thank the Chair.

Mr. DINGELL. The time of the gentleman has expired. The Chair recognizes now the gentleman from Colorado, Mr. Schaefer.

Mr. SCHAEFER. Thank you, Mr. Chairman.

Mr. Ashton, you have done a very good job on your testimony this morning. I commend you for it. May I ask, what is your position now?

Mr. ASHTON. I am a freelance management consultant and trying to figure out what I am really going to do.

Mr. **Schaefer**. The date of your release from General Dynamics was what?

Mr. **Ashton**. Officially, on April 2, 1982.

Mr. **Schaefer**. And since then your work experience has been——

Mr. **Ashton**. I was president of Space Services, Inc., of America, the little Texas outfit that launched that rocket about 2½ years ago off Matagordo Island, aiming to be in the launch vehicle business, did that for 6 months until we launched the rocket.

I was general manager of the Tulsa Division of Rockwell International, an aerospace division, for approximately a year. I was chief operating officer of Healthdyne, a medical products and services company based in Marietta, GA, for 6 months, which I left, from which I was fired, and which is undergoing a formal SEC investigation at the present time.

Mr. **Schaefer**. Thank you.

The report, the 688 report, who ordered you or did anybody order you to undertake this, or did you kind of do this on your own? Did you say, "I see a problem out here and I am going to"——

Mr. **Ashton**. Which report? I am sorry, the analysis or the design change one?

Mr. **Schaefer**. Your report.

Mr. **Ashton**. Well, the design change one Mr. Veliotis asked me to do. The subsequent analysis I prepared at my own volition, intending to send it to Mr. Lewis or at least get it to the corporate offices.

Mr. **Schaefer**. Yes; that is the cost overrun, right?

Mr. **Ashton**. Yes.

Mr. **Schaefer**. And this just did end up breaking in the newspapers; is that correct?

Mr. **Ashton**. In September, I believe it was October 5th—I think that is the right date—of 1981, the Providence Journal published a long article which, among other things in it, had in it cost information on the overrun on the attack subs. It had lots of other things in it too, including that the corporate office wanted to get rid of Mr. Veliotis and his team, and that Jim Ashton was the heir apparent.

I had nothing to do with that article. That is not where Dan Stetts, the author of the article, got the information. I don't know where he got the information but it wasn't very hard to get it. I apologize to Mr. Stetts. Maybe he had to work very hard to get it. But there were many people with that information, because the Navy, both locally and in Groton and in Washington, had a very thorough analysis and had that information. However, I believe, I surmise that Mr. Lewis and others, and I am sure Mr. Veliotis, believed that I gave that information to the press, from my analysis. I didn't, but I think they surmised that.

Mr. **Schaefer**. Where did the reporter—what did you say his name was—Stitz?—Get his information from?

Mr. **Ashton**. Dan Stetts.

Mr. **Schaefer**. Stetts—where did he get this information? Is it a mystery at this point?

Mr. **Ashton**. As far as I am concerned.

Mr. **Bilirakis**. Would the gentleman yield for one quick question?

Mr. **Schaefer**. Certainly.

Mr. **Bilirakis**. Mr. Ashton, why did you prepare this analysis? I mean, were you not busy enough, and therefore this is why you did it? Is it customary for a person in your level of management to do it? Is it something you have always done in the past in your other——

Mr. **Ashton**. Let me try to give you a simple answer. I went to Electric Boat expecting to be the next general manager. I went up there not to run the engineering department temporarily. That was what Veliotis clearly told me, and at least by implication Mr. Lewis told me. I set out to understand the circumstances there, so that I could be prepared to be the general manager.

The circumstances were dramatically different than described to me by the chairman of the board. I tried to take that information to my immediate boss, Mr. Veliotis. It became totally obvious that he wasn't interested in understanding anything like that, and I had a choice. I could play the game, and I would probably be the general manager there, or I could attempt to get the real situation laid out for the corporate offices, and hope that it would do something constructive. And I chose the latter course, prepared an analysis and attempted to get that to the corporate office.

Mr. **Bilirakis**. I thank the gentleman for yielding.

Mr. **Schaefer**. Mr. Ashton, let me get this straight. I understood that through a conversation with Mr. Lewis, I think it was the second conversation you had, he indicated to you that he did not want you to give this report to Mr. Veliotis?

Mr. **Ashton**. No, we didn't discuss the report directly. We discussed the situation at Electric Boat, in terms of why we were missing schedules and what our cost problem were and what the general conduct of business was.

I observed that I thought that the yard could be fixed and that I thought I could do a good job as the general manager, and that I would indeed still like a crack at it, even though it was totally screwed up, but that if that wasn't in the cards, then I thought it would be appropriate to know that, so I could go off and do something else.

Mr. Lewis' position, as I recall, was that I shouldn't do that, that I ought to confront Mr. Veliotis with the lack of rapport between he and I, and that we needed to work together so that I would be prepared to be the general manager.

I allowed to Mr. Lewis that I didn't think that there was any chance of that being constructive, but he was the boss and if that is what he wanted me to do, I would go confront Mr. Veliotis and see what I could do, and that is how we left the conversation on that Wednesday evening.

Early Thursday morning Mr. Lewis called me again, to suggest that I shouldn't go confront Mr. Veliotis, that things were going on that maybe would straighten this out, that I should sit tight and not lose any more sleep over it.

Mr. **Schaefer**. So, in other words, when you say confront him, that did not mean, or did it mean, anything about the report?

Mr. **Ashton**. No. You know, I don't want to mislead anybody. I attempted to lay out the circumstances, what was really going on in the shipyard early on with Veliotis and it had become totally clear that he did know, he didn't need me to tell him. Hell, he got a weekly report from a little guy who sat in the room down the hall that gave him a very good assessment of what was really going on.

I didn't know that until that spring, but he had good analysis of what was going on. He didn't need me to tell him, and he didn't want me to tell him. I am not maybe the best corporate politician you have ever met, but I understand that pretty clearly.

Mr. **Schaefer**. So, in other words, you never attempted to give him the report; is that correct?

Mr. **Ashton**. No, sir.

Mr. **Schaefer**. What about McCurdy?

Mr. **Ashton**. McCurdy and Jim Cunane and one other person, I don't remember which it was on the team, met me in the Groton Motor Inn the first night they were there on the audit, and we went over the report in great detail.

Mr. **Schaefer**. OK, thank you.

One thing that has me a little mystified. There was a letter written by Veliotis in December 1980, condemning you and your actions, and then if I read you right, in July 1981 you received an $8,000 raise. Did you repair your ways during this particular period of time?

Mr. **Ashton**. First of all, in my opinion, as I stated in my prepared remarks, the letter from Veliotis on December 31, 1980, was the beginning of the setup to discredit me. There are allegations in that letter that couldn't have any basis in fact, and it was simultaneous with another letter objecting to my analysis of design changes, and I think Veliotis, being a clever but devious person, was beginning the process.

The fact that I got an $8,000 raise was probaly more reflective of the fact that there was lots of maneuvering between people sort of on my side probably in the corporate office and folks on Veliotis' side, and what the hell, for a few thousand dollars let's not rock the boat yet here in July until we see how that comes out.

Mr. **Schaefer**. Who authorized that raise?

Mr. **Ashton**. It had to go through Veliotis and probably up to and including Mr. Lewis.

Mr. **Schaefer**. I have one final question here. In your opinion, were the problems experienced at the Electric Boat the result of gross mismanagement or possible fraud?

Mr. **Ashton**. I can't respond to fraud in terms of things prior to my arrival there, because it involves understanding what the people involved understood, their intent. Although I think Veliotis was certainly willing to commit fraud, I believe that while I was there it was a result of gross mismanagement.

Mr. **Schaefer**. Thank you, Mr. Chairman.

Mr. **Dingell**. The time of the gentleman has expired. The Chair recognizes now the gentleman from Alabama, Mr. Shelby.

Mr. **Shelby**. Thank you, Mr. Chairman.

Mr. Ashton, could you describe the relationship between Mr. Lewis and Mr. Veliotis, and do you know of any reason why Mr.

Lewis would fear confronting Mr. Veliotis, considering that he was the chairman of the board of General Dynamics and Mr. Veliotis worked for him? Could you elaborate on that, if you have some thoughts?

Mr. ASHTON. No, sir. I don't understand that relationship. It may have been much closer than what I observed. My observation when I was there tended to be that, and this is all indirect observation from other people, but that Lewis and Veliotis rarely talked, even though we were embroiled in the biggest mess and potential problem within the corporation.

But I don't claim to have any understanding of their relationship or why things were allowed to go the way they did at Electric Boat, totally out of character to my observation of Mr. Lewis' management and handling of the other divisions of General Dynamics.

Mr. SHELBY. Did you infer that something was wrong there in the relationship from what went on? In other words, you were at Fort Worth, you were vice president out there in the division at Fort Worth; is that right?

Mr. ASHTON. Yes, sir.

Mr. SHELBY. Did you ever have any kinds of problems like that at Fort Worth as far Mr. Lewis and the hierarchy of General Dynamics was concerned?

Mr. ASHTON. No, sir.

Mr. SHELBY. When you were sent to or transferred to Electric Boat, were you appalled at what went on? Was that some of your problems?

Mr. ASHTON. I would say that is an accurate description, appalled.

Mr. SHELBY. Were you made aware of some of the problems when you were sent there or you were transferred there? Was that not one of the reasons to get you there?

Mr. ASHTON. No, sir.

Mr. SHELBY. Did they tell you everything was rocking along well and they just wanted to——

Mr. ASHTON. Well, Mr. Lewis' description was that there certainly were still problems and things to be improved, but basically the shipyard had been straightened out under Veliotis, and it was now manageable, that we were going to underrun the public law settlement and that the Trident was now on track to finally get delivered as promised.

Mr. SHELBY [continuing]. But when you went there and looked into it, you found out that was not true, didn't you?

Mr. ASHTON. It was 180 degrees from what was the real situation.

Mr. SHELBY. It was just a plain lie, wasn't it?

Mr. ASHTON. No, sir. A lie implies Mr. Lewis knew about it. It was just plain wrong.

Mr. SHELBY. He knew as chairman, or should have known; would you say that?

Mr. ASHTON. God, I wish he had known or told me. He should have known.

Mr. SHELBY. Who was in charge of Electric Boat work when the inferior steel was used in the submarine that has been the subject of a big investigation?

Mr. ASHTON. I don't remember very clearly. I believe the steel was put into the warehouses during Mr. MacDonald's tenure, and installed both then and during Mr. Veliotis' tenure, but I am not sure of that.

Mr. SHELBY. Who caught the error or the fraud, or whatever it turned out to be, in the inferior steel; who did this, the Navy or General Dynamics?

Mr. ASHTON. In the case of the steel, I am not sure. I don't really remember. The steel problem was virtually gone by the time I arrived there, and I really don't remember.

Mr. SHELBY. Gone but not forgotten; is that right?

Mr. ASHTON. Gone but not forgotten. But it had been taken care of. The welding problem is much clearer. The Navy uncovered it, and the Navy kept the pressure on until it was finally really addressed.

Mr. SHELBY. Would you send your son, if you had one, out in some of these submarines that were being built at Electric Boat?

Mr. ASHTON. Yes, I would, in light of what we did subsequently. Those submarines, I am convinced, were thoroughly reinspected and made to be good submarines.

Mr. SHELBY. Had they not been reinspected, and redone, would you have some misgivings about it?

Mr. ASHTON. As long as we didn't use them in war, it would have been all right.

Mr. SHELBY. Thank you.

Mr. Ashton, basically what we have in the country is something that is hard to understand by the American taxpayers comparing private contracts in private industry and the ordinary marketplace against defense contracts with people like General Dynamics and other contractors. Do some of the problems or most of the problems come from the redesign or the reengineering of different things, or is it a combination of inefficiency in the production line and the common design changes? Would you care to elaborate?

Mr. ASHTON. In my opinion it is certainly a combination of things. The management of the design, development, and production of complex weapons systems is amongst the more difficult management problems faced in this world, and there aren't any simple answers to how to go do that well. However, the usual arguments for when it isn't done well, of what caused it, tend to be excuses for not doing the job well, rather than explanations of what really went wrong.

Mr. SHELBY. Do you have any suggestions that we in the Congress might consider in dealing with the taxpayers' money, trying to get the most for the taxpayer in the country, when the Pentagon is dealing with defense contractors, as far as the contracting relationship, considering your background and experience, on the inside and outside?

Mr. ASHTON. Well, in a broad sense I believe—and I don't believe you can do this with legislation, but rather by the behavior of the top executives on the Government side of things, I believe that contractors who perform well should be well rewarded. I think General Dynamics has earned a lot of money on the F-16 program, and at least for what I know of it they deserve to earn it all. But I also believe that when contractors perform poorly there need to be penalties there.

Now, I believe that a chairman such as Mr. Lewis has every right and reason to try to keep from losing money, as long as he does that in a legal way. He has got shareholders to worry about, and he should in fact be trying to use the contracts to his favor, if he can do that. On the other hand, if contractors do not perform well, they should never be let off the hook just because somebody claims it will be a bad thing for them.

Mr. SHELBY. Mr. Ashton, you just stated, and rightly so, for any chief executive officer that is selected by a board of a private corporation like General Dynamics, that they have an obligation to the shareholders of the stock, and to the board who put them there.

On the other hand, where a company like General Dynamics is getting over 90 percent of their income from the taxpayer, that is the U.S. Government, don't you think, or do you think that you have a higher degree of trust to the American taxpayer and to the American military that buys these weapons?

Mr. ASHTON. Yes; I think you certainly ought to have that kind of an attitude, and as I tried to describe early on, my view of what the proper way to conduct business is, I am convinced that that higher level of obligation, if you like, is also consistent with running your business extremely well for your shareholders. They are not inconsistent positions to take.

Mr. SHELBY. But they are parallel positions, aren't they?

Mr. ASHTON. They are indeed parallel positions.

Mr. SHELBY. Mr. Ashton, do you have any thoughts based on your experience, both inside the General Dynamics division at Fort Worth—which ran well and built a tremendous weapons system, its recognized efficiency and so forth—and your subsequent experience at Electric Boat, your experience on the outside, what we can do about the cozy relationship between the Pentagon and the defense contractors, to eliminate a lot of the so-called questionable conduct that the American people perceive, and we certainly perceive here in the Congress?

Mr. ASHTON. Well, I guess I have grown to believe that the revolving door is awfully fast, and that even though a lot of the restrictions on the revolving door tend to have bad side effects too, that is, if you won't allow folks to profit from getting exposure to the Government, then less good people want to work in the Government, for example. But I believe that the requirements that people not go from a Government position where they had influence over a contractor, into that contractor, or anything close to where he was, would be in order.

But I would also have to add that the Members of the Congress, on average, none of you, I am sure, are at least as guilty of the same sort of protection of the local contractor who did bad and is going to lose a lot of money unless you somehow bail him out, and every time you bail him out you have taken away the penalty of doing bad. If there is no penalty for doing bad, lots of folks will do it.

Mr. SHELBY. In other words, the market forces really aren't working as far as the defense contracting is concerned, whether it is real or——

Mr. ASHTON. Not as much as would be in the best interests of the United States.

Mr. SHELBY. Mr. Chairman, I have just got a couple more comments, if I may proceed.

Mr. Ashton, we have a new Attorney General. Everybody knows about the controversy of getting him confirmed, and I certainly don't know what is going on at the Justice Department. I hope Mr. Meese knows more about what is going on in the Justice Department than Mr. Lewis did of what is going on at General Dynamics, at least from what we have initially seen, or maybe he didn't want to know.

It has been said around town that Mr. Meese is the kind of Attorney General that could never find anyone that would be worth indicting. I hope that is not true.

Mr. DINGELL. The time of the gentleman has expired. The Chair recognizes the gentleman from Kansas, Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman.

Mr. Ashton, I want to go back, if we could, for just a second to the conversation that you had with Mr. Lewis at the time you were hired and sent to Electric Boat. Recount again, if you could, the nature of that conversation. Specifically, did Mr. Lewis tell you that Mr. Veliotis was doing a good job at EB, or how did he characterize the situation there? I would like for you to be very specific about that conversation you had with Mr. Lewis at the time you were hired.

Mr. ASHTON. Mr. Lewis' characterization of Veliotis was that he had done an excellent job of shaping up the shipyard, of managing the shipyard and straightening out the long-term problems there. That he was a valued employee that wanted to either retire or that wanted to retire when the Trident delivered. He agreed to stay until then, but that Mr. Lewis did not want him to retire, and hoped to convince him to continue in some other capacity, but that he knew he would not stay at Electric Boat after the Trident delivered, and——

Mr. SLATTERY. So it was a situation where Mr. Veliotis, from Mr. Lewis' point of view, wanted to leave but Mr. Lewis didn't want Mr. Veliotis to leave; is that what you are telling us?

Mr. ASHTON. That was the description Mr. Lewis gave to me in late August 1980, and the final comment that I remember explicitly, that Mr. Lewis told me that certainly Mr. Veliotis did not have the best relationship with the customer that one could have, and in fact that was one of the areas that hopefully I could improve on, based upon both my past experience and approach to customers.

It didn't take any great—I mean, it was easy to agree with that observation, since there was wide controversy raging between at least Rickover and Veliotis at that point in time. But Mr. Lewis' position was to keep Veliotis in the corporation in some capacity, but not at Electric Boat, once the Trident delivered.

Mr. SLATTERY. But at that time, from Mr. Lewis' point of view, based upon what he told you, it was his view that Mr. Veliotis was doing a good job in terms of the management of the facility. Any problem that he might have had stemmed from his inability to have better relations with the customer, in this case the Navy; is that correct?

Mr. **Ashton**. That is correct.

Mr. **Slattery**. Just one other question. I know we are anxious to get on with the other panel. If you were on this side of the table, Mr. Ashton, is there anything that you would like to provide us that you haven't provided us?

Mr. **Ashton**. No. I believe that I have fairly represented what I know, and we all have our own guesses, but guesses aren't, I don't think, appropriate for this circumstance.

Mr. **Slattery**. The next question I wanted to ask you, and my last question is: How would you characterize Mr. Lewis' management of Electric Boat from your perspective, as perhaps an heir apparent while you were at Electric Boat?

Mr. **Ashton**. Mr. Lewis' or Mr. Veliotis'?

Mr. **Slattery**. Well, Mr. Veliotis reported to Mr. Lewis. Mr. Lewis had management responsibility for what was going on at Electric Boat in his position.

Mr. **Ashton**. Obviously he did, but my observation was he appeared to have virtually no role in the day-to-day management of Electric Boat. Mr. Lewis is a thorough, pretty hard-driving individual, by my experience, and at the other places I had worked with in General Dynamics, he, I think would be fair to say, occasionally got involved in a pretty low-level detail in decisionmaking sometimes. Some of us thought it was lower maybe than it should have been.

Mr. **Slattery**. Was this especially the case with the F-16 program, perhaps?

Mr. **Ashton**. I expected to see at least some similar sort of behavior at Electric Boat, and I saw no such involvement, which either means it wasn't there or I didn't see it. I didn't see any such involvement with Electric Boat or what was going on, none at all, and I don't know why.

Mr. **Slattery**. So is it safe to say then that Mr. Lewis was passively involved in what was going on at Electric Boat, from your perspective?

Mr. **Ashton**. From my perspective, that is correct.

Mr. **Slattery**. Mr. Chairman, I have no further questions.

Mr. **Dingell**. The time of the gentleman has expired. The gentleman from Texas.

Mr. **Bryant**. Before you dismiss the witness, I had one further question.

Mr. **Dingell**. The Chair will recognize the gentleman.

Mr. **Bryant**. I just wanted to ask you if you will tell us, Mr. Ashton, what has happened to you personally since the time you lost the confidence of the company and then later left the company payroll, and what the effect was or has been upon you, and also what has happened to you, what price may you have paid for your participation or willingness to cooperate with this committee's investigation?

Mr. **Ashton**. Well, my personal life has, unfortunately, had some rocks in it the last several years. I don't believe other than the fact that life changed totally in late 1981, that that is General Dynamics' fault. I, unfortunately, got involved with a situation that I happened to believe was both unethical and illegal in another corporation, which has been pretty painful from my point of view, and had to bail out.

I have gone through a divorce in this same timeframe, just completed it, which is probably partly a result of these things. But I don't want to characterize myself as somehow the abused citizen.

The biggest problem to me in all of this has been that I believe Electric Boat could have been made to be an extremely efficient shipyard. Maybe it has been, but I suspect not. I think we could have done a lot to make the shipyard what the taxpayers would like it to be, and General Dynamics would have prospered by doing that, and I have misgivings to this day about the inability to have done anything constructive in that direction. Other than that, we all have our hurdles to overcome, and I eat every day and sleep with a roof over my head and don't have any major complaints.

Mr. DINGELL. The time of the gentleman has expired. Are there any other questions of our witness?

Mr. SCHAEFER. Mr. Chairman. One quick one.

You indicated involvement in an unethical situation that you had to bail out of; is that correct?

Mr. ASHTON. Yes, sir.

Mr. SCHAEFER. Did that have anything to do with Government contracts?

Mr. ASHTON. Not a bit.

Mr. SCHAEFER. Thank you.

Mr. DINGELL. Mr. Ashton, the committee has kept you too long. We are particularly appreciative of the forthright way in which you have addressed the matters before the committee. We believe you have added materially to the inquiries that have gone on today, and the Chair, on behalf of the committee, expresses our commendations and our appreciation to you for your assistance to us.

Mr. ASHTON. Thank you, sir.

Mr. DINGELL. We thank you very much for your presence, and we excuse you with thanks.

The Chair announces that our next witnesses are a panel composed of Mr. David S. Lewis and Mr. Gorden E. MacDonald. Mr. Lewis is chairman of the board and chief executive officer of General Dynamics Corp. Mr. MacDonald is executive vice president and chief financial officer of General Dynamics Corp. As soon as Mr. Ashton has cleared the table, would you gentlemen please come forward.

Mr. LEWIS. I wonder if we could have about a 2-minute break, Mr. Chairman.

Mr. DINGELL. I think that would be appropriate. The committee will stand in recess for 5 minutes.

[Brief recess.]

Mr. DINGELL. The subcommittee will come to order.

Our next witnesses are: Mr. David S. Lewis, chairman of the board and chief executive officer of General Dynamics Corp., and Mr. Gorden E. MacDonald, executive vice president and chief financial officer for General Dynamics Corp.

Gentlemen, the committee thanks you for being with us here today. The Chair observes that in conformity with the regular practices of the committee, it will be necessary to administer the oath.

Do either of you object to being sworn?

Mr. **Lewis**. No.

Mr. **Dingell**. Do either of you desire to have counsel present with you, at the witness table?

Mr. **Lewis**. No, sir.

Mr. **Dingell**. Gentlemen, you will observe that copies of the rules of the committee rules of the subcommittee are there at the witness table with you for purposes of informing you of your rights and the limitations of the committee's power.

Gentlemen, if you please, will you each then rise and raise your right hand.

Do you solemnly swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. **Lewis**. I do.

Mr. **MacDonald**. I do.

Mr. **Dingell**. Gentlemen, you may each consider yourself to be under oath.

Mr. Lewis, I am informed that you have an opening statement, and we recognize you for that purpose.

TESTIMONY OF DAVID S. LEWIS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, GENERAL DYNAMICS CORP., ACCOMPANIED BY GORDEN E. MacDONALD, EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Mr. **Lewis**. I appreciate that, Mr. Chairman.

This report is a progress report of activities taken by our company since the 28th of February hearing before the committee. This committee and other committees of the Congress have brought to our attention a number of examples of cases where our company has submitted requests to the Government for reimbursement for cost items that were inappropriate. They appeared to conclude that the overall policies used by our company to establish reimbursement proposals to the Department of Defense through our overhead accounts was inadequate.

I do not totally agree with them. However, it was evident that, in some cases, our company's policies were not being followed. At the February 28 hearing before this committee, I committed that I would investigate the situation in detail, and I also committed to make improvements in our systems where such action was indicated. I would like to take this opportunity to bring you up to date on where we stand today and our preliminary findings.

We have, over the past several weeks, been examining our present policies and procedures to determine how those inappropriate vouchers could have been submitted. Our preliminary conclusion is that our policies are satisfactory, but that our implementation of those policies has left much to be desired because the policies were not supported by adequately defined written procedures which would make it clear to our people what are and what are not appropriate charges against Government contracts. Had those procedures been more sharply defined, and had our people better understood them, they would have been able to properly categorize expenses on their vouchers before submission to our accounting department.

Obviously, from the above, we have concluded that we need an overhaul in our policy statements, in our paperwork forms, and, most important, in the direction and education of our people at all levels on how charges are to be handled to assure that those accounts submitted to the Government for reimbursement are appropriate. We are hard at work developing those new policy statements and procedures.

With respect to our proposals of the charges and vouchers for all of the open years that were previously submitted to the Corporate Administrative Contracting Officer—that is, of the Government—and Defense Contract Audit Agency, we have recently instituted intensive individual voucher-by-voucher review and evaluation procedures. Approximately 200 people are working full time in our corporate office in St. Louis analyzing each and every corporate office overhead voucher and charge for the years 1979 through 1984. Those people have been trained to understand what is an appropriate charge and what is not an appropriate charge. They are looking at every voucher and every expense report, and they are designating every item that appears to have the slightest question of allowability.

After that analysis, a group of four experts is reviewing the questioned items and deciding, based on the contract cost principles contained in the Defense Acquisition Regulations and the Federal Acquisition Regulations, which items shall be withdrawn from our overhead proposals. This entire operation is being carried out on a two-shift, 7-day-per-week basis.

In each of our divisions, exactly the same procedures are being followed. In the divisional operations, there are an additional 500 capable and experienced people working on the same intensive schedules.

To give you an idea of the magnitude of this project, we must analyze the contents of approximately 10,000 file-sized boxes containing hundreds of thousands of vouchers and line-item expenditures. It is hard to forecast with accuracy when this effort will be completed, but we intend to keep moving forward until it is finished. I am sure that as we go along, we will have trend indicators which will give us an idea of the results to be expected from this effort. We will keep the Department of Defense and this committee apprised of our progress.

In addition to the process that I have described above, I have also had our people analyze the DCAA audit reports submitted with respect to our proposals for overhead reimbursement for the years 1979 through 1982, which is the last that has been written, or that we have received. The total of our proposals for overhead reimbursement for those years was approximately $170 million. The DCAA audits of those proposals questioned $63.6 million of that amount.

Although we believe that the vast majority of the questioned items are probably allowable under the applicable regulations, we have now looked at those questioned items in light of today's environment and Secretary Weinberger's newly stated policy with respect to the allocation of overhead costs to Government contracts. We have applied our judgment to the issue and we will voluntarily remove approximately $23 million from our outstanding overhead proposals. This figure may increase somewhat as a result of further negotiations.

In addition to the retroactive adjustments described above, we are taking strong action with respect to the future: (A) I have directed that vouchers for all business conferences specify the names of the attendees, the purpose of the conference, and that all vouchers be supported by adequate documentation. (B) We will continue working on the development of the expanded procedures designed to implement our corporate policies, which will be fully consistent with the DAR's and FAR's. (C) Using the revised policy implementation procedures, we will supply our personnel with specific and sharply defined instructions on what constitutes allowable and disallowable charges against contracts. They will be instructed to indicate on their individual vouchers or expense reports those items which are not allowable against Government contracts. (D) All of the above will require careful indoctrination and educational procedures, which will be carried out.

You may be sure that we are determined to correct the problems that we have had, negotiate satisfactory overhead agreements for the open years as rapidly as we reasonably can, and move into the future with procedures that will be totally satisfactory to the Department of Defense.

I trust that this information on the current status of our activities is helpful to you.

Thank you, Mr. Chairman.

Mr. DINGELL. Mr. Lewis, the committee thanks you for your very helpful statement.

The Chair believes that this is a very useful beginning in correcting the problems that the committee has found, and I commend you for that.

Mr. LEWIS. May I just ask that it be placed in the record, please, sir?

Mr. DINGELL. That will be done in its entirety.

Mr. LEWIS. Thank you.

Mr. DINGELL. The Chair recognizes the gentleman from Minnesota, Mr. Sikorski.

Mr. SIKORSKI. Thank you, Mr. Chairman.

Mr. Lewis, I want to play for you a short segment of a tape of an August 25, 1981 telephone discussion you had with Mr. Veliotis concerning a meeting you had just attended. The meeting was with Secretary of the Navy, Mr. John Lehman, and concerned General Dynamics' insurance claims and additional contracts for 688 and Trident submarines.

> By the time we got down to the parking lot, we were in the car and Sawyer runs out, asks for a ride over to Crystal City here. And he said, look—he said, we've got to find a solution. He said, this is just between us, and we've got to figure out a way to sit down here and negotiate some contracts; give you some stuff that maybe we can do to find a solution. And I said fine, that's what we're asking you to do. I said, we're not giving this stuff up, and I hope you understand it, without something in return. And he said, okay, I'm going to go to work. And he said, I can write you a contract for number 4, with options, right now, priced options.

> And I said—and he said, I can give you number 9 without priced options for 10 and 11 and terms like those we've got with Newport News. And I said, what about the price; you are talking about the terms? He said, well, you've got to get a price. I said, that goddamned sea command will drag out our option price of last March. Couldn't start there. And we're not interested. And he said, no, we've got—you've got to trust me. I will see that that does not happen. I want to have terms that get you out of this problem. That's a quote. I said, well, we're open-minded; we'll sit down and talk orders any time. So this is the first time now they're coming around to what we were talking about yesterday. And as you said, I'm going to stay out of it and let Ted. * * *
>
> PTV: I think you should stay out of it, the same way Lehman stays out of it."
>
> DSL: So I said okay.

That is your voice on the tape, is it not, Mr. Lewis?

Mr. LEWIS. Before responding——

Mr. SIKORSKI. Well, why don't you answer whether it is your voice on the tape, and then I will let you characterize it in any way you want to.

Is that your voice on the tape?

Mr. LEWIS. It appears to be.

Mr. SIKORSKI. Mr. Lewis, do you want to make a comment?

Mr. LEWIS. Yes, I do.

Before responding, I wish to state that counsel advises me to assert the following legal objection with respect to the use being made of these Veliotis tapes. First, they are totally unauthenticated. We have been given a copy of only one, the one containing a discussion about Ashton in 1981. We have had it examined by our engineers who, as I understand it, have noted the presence of breaks in the tape, suggesting the possibility of deletions by Veliotis.

We have not been given the 1977 Trident tape, despite our request that in fairness we should be allowed to examine it. We believe that it may be incomplete or even doctored.

We have asked the committee staff for copies intended to be used at the hearing today. We have not received any such tapes.

Counsel advises me there is a Federal law specifically designed to protect the integrity of judicial and legislative proceedings and the rights of citizens from unscrupulous persons, such as Veliotis, who may surreptitiously record contrived and tailored conversations and attempt to make use of them for criminal, tortious, or injurious purposes.

Accordingly, I must hereby object to the receipt of any and all of the Veliotis tapes in evidence or the asking of any questions based upon their alleged contents on the grounds they were made in violation of title 18 United States Code, sections 2511(2)(d), which forbids private parties not serving law enforcement purposes to intercept wire communications for the purpose of committing criminal, tortious, or injurious acts; and title 18, section 2515, which forbids introduction of such tapes or evidence derived therefrom in this legislative proceeding.

However, I wish to make it clear that if the Chair now overrules this objection, I will proceed to answer your questions concerning these illegally made tapes—excuse me—as best I can under the circumstances.

Mr. DINGELL. Mr. Lewis, the Chair must observe that the tapes were not made by the committee. The Chair must also observe that the tapes were not presented to the committee under any illegal fashion or with any indication of impropriety by any member of the committee staff or any member of the Federal Government or employee thereof.

The Chair must further observe that the Chair is completely unaware of anything which precludes the committee from inquiring into the subject matter of the tapes as they are before us, particularly since they are an essential part of the inquiry into which the committee proceeds at this particular time.

Perhaps the Chair can best resolve the question before us by observing that the Chair will admit the tapes, the Chair will permit you and General Dynamics and Mr. MacDonald to raise any questions that you might wish with regard to the correctness or the propriety of these tapes, and the Chair will observe that copies will be made available to you for such criticisms as you might choose to make; and the Chair will see to it that those are included in the record in the appropriate place and in the appropriate fashion.

The Chair will observe that in view of the questions which you have raised, the Chair will direct—before recognizing the gentleman from Minnesota for purposes of questions—several questions to you relative to the contents of these tapes.

The first question is: Did you talk to Mr. Veliotis on the telephone on August 25, 1981?

Mr. LEWIS. Sir, am I to understand that you have overruled my objection?

Mr. DINGELL. That is correct; I have.

Mr. LEWIS. You have overruled my objection.

Just from the standpoint of expedition, may I have a continuing objection on this ground of use of any Veliotis tape or evidence derived therefrom in this proceeding, so I need not bother the committee by restating this legal objection during the hearing?

Mr. DINGELL. In fairness to you, Mr. Lewis, and also to Mr. MacDonald, the Chair will permit you to note any objections that you have with regard to the proceedings of the committee, and it will be our purpose to see to it that, as fully as we can, given the character of the media in which we now participate, that you have the fullest opportunity to achieve both fairness and the appearance of fairness and also satisfaction that you have been, to the best of the ability of the Chair of this particular committee—to be fairly treated.

So that the Chair does overrule your objection. You may note it as often as you desire. And the Chair will be prepared to rule on it as often as you feel it is appropriate, in view of the fact that this, I think, is one of your rights which is proper for you to assert.

Mr. LEWIS. I would hope that you would accept this as a general objection so I wouldn't have to stop the questioning from time to time.

Mr. DINGELL. We will proceed in either course. If that be your wish, then it will be the intention of the Chair that you may note for the record the continuing same objection.

The Chair will ask: Did you have a discussion with Mr. Veliotis on the date of August 25, 1981, on the telephone?

Mr. LEWIS. If that is the date of that call, Mr. Chairman, I am not positive of the date.

Mr. DINGELL. The committee's information is that the date of the call is August 25, 1981.

Mr. LEWIS. I have no reason to doubt that.

Mr. DINGELL. You have listened to the tape as read. Do you recollect the subjects of the discussion which took place on approximately the 25th of August 1981?

Mr. LEWIS. Yes, Mr. Chairman. That was the report to Veliotis about a long, very difficult negotiating session with Secretary of the Navy Lehman, and Mr. Sawyer, which took place on that day. I believe that is the date. I am not quibbling about the date. And I—after that meeting, I did report to Veliotis the essence of our meeting, which I would like to describe, if you would care to have me so describe it.

Mr. DINGELL. The Chair has no objection to you doing that. If you wish, then I will recognize you for purposes of describing the discussions held between you and Mr. Veliotis relative to your discussions with Mr. Sawyer. I recognize you at this time for that purpose.

Mr. LEWIS. My discussions with Mr. Lehman?

Mr. DINGELL. The Chair recognizes you at this time pursuant to your suggestion that you describe to us your best recollection of your discussion with Mr. Veliotis regarding your conversations with Mr. Sawyer.

Mr. LEWIS. Only Mr. Sawyer?

Mr. DINGELL. Well, we will recognize you for anything else you wish to say in addition to that. But since this appears to be your question, or your concern, the Chair is trying to see to it that you have full opportunity to raise such discussions and concerns——

Mr. LEWIS. I would like to go back to the meeting with Mr. Lehman and Mr. Sawyer.

Mr. DINGELL. With Mr. Lehman or Mr. Sawyer. We will recognize you for either purpose.

Mr. LEWIS. There was a meeting including Mr. Lehman and Mr. Sawyer. And then there was a separate automobile ride which I believe this was describing with Mr.——

Mr. DINGELL. In perfect fairness, I think, Mr. Lewis, that the Chair should recognize you then for such discussion of the events leading up to this telephone call, as you feel appropriate. You are recognized for that purpose.

Mr. LEWIS. Thank you.

Mr. Chairman, as I mentioned in our prepared statement last time, we have had a very, very, very difficult situation with the Navy with respect to Electric Boat and the 688 class submarines and the Trident class submarines.

We had a meeting that morning. Mr. LeFevre and I were there representing our company. And it was very apparent that after 5 months, I believe it was, after the Navy had awarded contracts to Newport News that should have been awarded to Electric Boat, that we were getting nowhere; the Trident was not being placed on contract; and employment problems, layoffs and so forth, were imminent.

Just prior to that time, also, the Navy had negotiated contracts with Newport News for the three ships which—on which we were the low bidder, which competition was terminated on March 17, 1981.

We had a very explosive meeting at that time. And it was my contention that the Navy was doing nothing to try to straighten this thing out. We had the insurance claims that Mr. Ashton alluded to earlier. One of them had been filed, I believe in June, and this was an area of great agony for the Navy because it opened Pandora's box and could have been enormously expensive.

Mr. Lehman had taken a very strong position that there would be no more business awarded to Electric Boat as long as those claims, which we felt were legally correct, were still standing there.

The essence of our discussion, which went on for quite some time, was, if you want us to give up those claims, somehow there has to be something in exchange for a valuable asset such as those claims are.

Mr. **Dingell**. This is Mr. Lehman's position?

Mr. **Lewis**. Mr. Lehman's position was that he would never pay a penny of that, period, the end; and that he could not afford to have that tested in court; and that he was going to deny the claim entirely. As I say, the meeting was quite heated.

But then they said, well, we have got to find a way to get—first of all, the Secretary had sent—developed a team to review the situation at Electric Boat to determine whether it was now, quote, "better than it had been." And that team's report was ongoing and apparently was—things were getting better.

But we had the Trident. He wanted to place the Trident. And we said, all right, we have got to find some solution. We just can't stand here screaming at each other and filing claims which have outraged everybody, including the Congress, when Mr. Veliotis presented them to the Seapower Subcommittee. And the agreement was made that—there was no agreement made, but, OK, we do have to find some kind of solution.

Now, in the cancellation of the award of the three boats to Newport News—there were four in that year appropriated by the Congress. They held the fourth one out to see whether we straightened up our act at Electric Boat, which the intention was then to give it to us, and that, obviously, was one possibility.

The second one was, Mr. Lehman had stated, for the next year's fiscal 1982 submarines you are not going to be on the bid list as long as we have these outstanding insurance claims. It is a matter of principle. Those were something that we wanted very badly to be on the—have an opportunity to bid on down—which would be awarded several months later. And, of course, we wanted the next Trident, which had been appropriated, and which was the cause of the delays.

So that was the essence of the meeting. We generally agreed, OK, let's see, within the framework of the various options both sides have, can we find a way to resolve this conflict instead of just letting Electric Boat die away—25,000 or 26,000 jobs, whatever it was, and so on.

As I remember it, that was the way the meeting ended; that we would think about it and we would each try to find some way to bridge the gap.

And so after that meeting, Mr.—which was in Secretary Lehman's office in the Pentagon—Mr. Sawyer asked us for a ride over to Crystal City where he—where his office is, and we did give him a ride. And so there was a conversation that took place, and that is the environment I'd appreciate——

Mr. **Dingell**. The telephone discussion which was taped, a transcript of which was flashed on the wall here, referred not to the discussion between Mr. Lehman, yourself, and others in the meeting, but it referred, rather, to the discussions which took place with Mr. Sawyer either before he entered the vehicle or just after.

Isn't that correct?

Mr. **Lewis**. The telephone conversation I had with Mr. Veliotis covered the entire meeting with Lehman as well as with Sawyer. This snippet that you have put on the board, and which we hoped we would have had before this meeting started, was covering the time period, I believe, when Mr. Sawyer was either in the car or getting out at his office.

Mr. **Dingell**. Or getting in, from the time he got in until the time he got out?

Mr. **Lewis**. I think it was later, yes.

Mr. **Dingell**. In fairness, is that portion of the tape which was played together with the transcript which was flashed on the wall unfactual or unrepresentative of the discussion which took place between yourself and Mr. Sawyer?

Mr. **Lewis**. That conversation took place in 1981, and I don't have a vivid memory, nor do I tape things. I think, in essence, I believe that it's—it's representative.

Mr. **Dingell**. Let me ask you this: Is it unrepresentative of the facts as they occurred in the discussion?

Mr. **Lewis**. I don't believe so. I don't really have it. And, as I have said over and over again, it's certainly very difficult to seek—to be handed your head with a piece of tape here with no warning, and be requested to be responsible with respect to that—to give responsible answers.

Mr. **Dingell**. Is there anything in the tape which was played, or the transcript which was flashed on the wall, which is in any way altered or unrepresentative of the discussion which took place between you and Mr. Veliotis describing your discussions with Mr. Sawyer?

Mr. **Lewis**. I have no idea of that, no idea one way or the other. I have no way of knowing.

Mr. **Dingell**. The Chair will then recognize the gentleman from Minnesota, Mr. Sikorski, for questions.

Mr. **Sikorski**. Thank you, Mr. Chairman.

Mr. Lewis, would it be accurate to say that Mr. Sawyer at this point was Assistant Secretary of the Navy? Is that correct?

Mr. **Lewis**. Yes; he was—for Shipbuilding and Logistics, I believe.

Mr. **Sikorski**. And General Logistics?

Mr. **Lewis**. I think Logistics.

Mr. **Sikorski**. For Shipbuilding and Logistics.

Would it be accurate to say that he said to you in the car as it was going over to Crystal City, "We have got to find a solution. This is just between us, and we have got to figure out a way to sit down here and negotiate some contracts, give you some stuff * * *"?

Mr. **Lewis**. I think that was the substance of the meeting and the substance of our conversation. I do not know that he said that, and—I—what you are saying is what I said.

Mr. **Sikorski**. What I am——

Mr. **Lewis**. What I said——

Mr. **Sikorski**. What I am reading is what your voice——

Mr. **Lewis**. Seems to say.

Mr. **Sikorski** [continuing]. Says in a conversation with Mr. Veliotis?

Mr. **Lewis**. Yes.

Mr. **Sikorski**. I quote you again: "And he"—meaning Sawyer—"said, okay, I'm going to go to work. And he said, I can write you a contract for number 4 with options right now, priced options."

Later on, you go on and say, "He said, well, you have got to get a price. I"—meaning you, Mr. Lewis—"said that goddamned sea command will drag out our option price of last March. Couldn't start then. We're not interested. And he"—Mr. Sawyer—"said, no, we've got—you've got to trust me. I'll see that that does not happen. I want to have terms that get you out of this problem." That is a quote; end of quote.

That isn't an inaccurate analysis of your conversation with Mr. Sawyer in your car, is it?

Mr. **Lewis**. I think it reflects what was said, yes. I just—I don't remember everybody's quotations.

Mr. **Sikorski**. Mr. Sawyer no longer works for the Navy now, does he?

Mr. **Lewis**. He works for us.

Mr. **Sikorski**. He works for you.

And what does he do for you?

Mr. **Lewis**. He is executive vice president for Land Systems—which is our tank plant in Michigan and Ohio and Pennsylvania—and International, and Service Co.

Mr. **Sikorski**. So he is executive vice president for Land Systems International and Service Co.?

Mr. **Lewis**. Services.

Mr. **Sikorski**. Services.

It is my understanding that Mr. Sawyer is currently the subject or target of the grand jury in New Haven investigating General Dynamics; is that correct?

Mr. **Lewis**. Not to my knowledge.

Mr. **Sikorski**. Has he received a target letter?

Mr. **Lewis**. Not to my knowledge.

Mr. **Sikorski**. I understand that you testified before the grand jury on February 19 of this year; is that correct?

Mr. **Lewis**. Yes, I did testify before the Grand Jury.

Mr. **Sikorski**. And Mr. Sawyer was a focus of that questioning?

Mr. **Lewis**. Mr. Sawyer was—yes, was the subject of the questioning.

Mr. **Dingell**. Would the gentleman yield?

Mr. **Sikorski**. Certainly, Mr. Chairman.

Mr. **Dingell**. Mr. Sawyer is also a member of the General Dynamics Board of Directors, is he not?

Mr. **Lewis**. Yes; he is.

Mr. **Dingell**. And the board was in fact increased in size so that he could be placed on the board, was it not?

Mr. **Lewis**. The board was reduced in size when Veliotis left, and, as I remember, Mr. Chairman, resumed the original size.

Mr. **Dingell**. Thank you.

Mr. **Slattery**. Would the gentleman yield for 1 second?

Mr. **Sikorski**. Certainly.

Mr. **Slattery**. Mr. Lewis, can you tell us approximately how much Mr. Sawyer makes in his present position?

Mr. **Lewis**. I would rather tell you accurately, if I could.

Mr. **Slattery**. If you can, that would be wonderful.

Mr. **Lewis**. We gave it to Mr. Stockton.

Mr. **Sikorski**. Maybe someone could look that up, and we will get back to that. We will reserve that question.

When you testified Mr. Sawyer was a focus of your questioning in front of that grand jury—and, as I understand it, when Mr. MacDonald testified he was questioned on Mr. Sawyer—is that correct, Mr. MacDonald?——

Mr. **MacDonald**. That is correct.

Mr. **Sikorski** [continuing]. And Mr. LeFevre, as well?

Mr. **Lewis**. Yes.

Mr. **Sikorski**. Now, last week we received documents from the Navy, and General Dynamics, you, concerning Mr. Sawyer's transition from the Navy to General Dynamics, and these documents raise serious questions concerning violations of the Federal conflict of interest statutes. I want to go through a short chronology of events developed from these documents and then discuss the matter with you.

As you noted, Mr. George A. Sawyer is currently a member of the board of directors of General Dynamics and an executive vice president of your corporation for Land Systems International and Services. From 1981 through June 1983, Mr. Sawyer was the Assistant Secretary of the Navy for Shipbuilding and Logistics. In that job, Mr. Sawyer had oversight of all the Navy's shipbuilding and other procurement contracts. He was the key participant in the resolution of the insurance claims and other contractual disputes which existed between General Dynamics and the Navy in 1981—the subject of the tape that I just played.

Title 18 United States Code section 208, makes it illegal for any officer, or any employee of the executive branch, and I quote,

> . . . through decision, approval, disapproval, recommendation, the rendering of advice, investigation or otherwise in a judicial or other proceeding, application, request for ruling or other determination, contract, claim, controversial charge, accusation, arrest or other particular matter in which he or any person or organization with whom he is negotiating or has any arrangement concerning prospective employment, has a financial interest . . .

it goes on—

> . . . the fine should not exceed $10,000 or imprisonment, 2 years, or both.

Now, on March 8, 1983, you called Mr. Sawyer and suggested to him that if he was leaving the Navy, he should come to talk to General Dynamics.

Is that accurate, Mr. Lewis?

Mr. **Lewis**. I'm not sure of the date. I called Mr. Sawyer early in March 1983 and said that I had been told that he had advised Secretary Lehman, and I believe Secretary Weinberger, that he was going to leave the Navy for personal reasons, family and financial, and had so—and had so notified them orally. And so I did call him early in March and asked if that was true, and had he made his decision to leave the Navy. His answer was affirmative.

I asked him, did he have any schedule or any plans; and he said no, but he wanted to leave and get his family together some time in the spring or early summer so that he could develop a family relationship.

Mr. **Sikorski**. Did you request him to come and talk to General Dynamics?

Mr. **Lewis**. I asked—well, I asked him if he had decided what he would like to do. And he said no, he had not given it much thought. I said,

> Well, you don't know much about General Dynamics other than Electric Boat and the Quincy Shipyard; perhaps you would be interested in our company or learning more about our company and have our people get to know you. And if you think that is a good idea, some time we would like to have you come out and meet these people.

Mr. **Sikorski**. In the environment that he was leaving, the Government, in looking for employment, as I understand, on March 20, 1983, you called Mr. Sawyer again and discussed possible employment at General Dynamics, suggesting that he, Sawyer, come out and meet the top people at General Dynamics on March 25, 1983. Is this accurate?

Mr. **Lewis**. I didn't suggest possible employment with General Dynamics.

Mr. **Sikorski**. I thought you just told me——

Mr. **Lewis**. Said it was exploratory on both sides, that he was——

Mr. **Sikorski**. What was "exploratory"?

Mr. **Lewis**. Pardon me?

Mr. **Sikorski**. Possible employment?

Mr. **Lewis**. I suggested that he should come out and understand, get to know our people, the way we operate—which is quite different than a lot of others perhaps that he was used to—and learn something about the divisions of this company, which are very broad.

Mr. **Sikorski**. The contacts that he was leaving the Navy——

Mr. **Lewis**. With the idea that he might be interested in employment, absolutely.

Mr. **Sikorski** [continuing]. I thought that is what I said.

Mr. **Lewis**. I'm sorry, yes.

Mr. **Sikorski**. In fact, you delivered a round-trip ticket to Mr. Sawyer for the trip to St. Louis to visit you; is that correct?

Mr. **Lewis**. I learned that sometime later, yes.

Mr. **Sikorski**. Well, General Dynamics, I didn't mean——

Mr. **Lewis**. Yes.

Mr. **Sikorski** [continuing]. In fact, there is a resume of his dated March 9, 1983, with your writing on it, your initials dated March 21, 1983, on it, and on March 25, 1983, Mr. Sawyer, we understand, spent the day at General Dynamics' headquarters at St. Louis, being interviewed by several General Dynamics' executives, including the president, Mr. Boileav?

Mr. LEWIS. Boileav.

Mr. SIKORSKI. And Mr. MacDonald and others, is that correct?

Mr. LEWIS. That is correct.

Mr. SIKORSKI. According to your handwritten notes of March 28, 1983, you polled the executives that Mr. Sawyer had interviewed, and in those notes there is a note that he spent with OCB 1 hour and 15 minutes. Who would be OCB?

Mr. LEWIS. Boileav.

Mr. SIKORSKI. And with GEM, Mr. MacDonald I presume, hour and twenty minutes, and WGS?

Mr. LEWIS. That is Warren Sullivan.

Mr. SIKORSKI. And FSW?

Mr. LEWIS. Fred Wood.

Mr. SIKORSKI. For 45 minutes, and initials that I can't read—JRVS?

Mr. LEWIS. What is it?

Mr. SIKORSKI. JRM?

Mr. LEWIS. James R. Mellor.

Mr. SIKORSKI. For 1 hour, and that is a pretty accurate summary of the times he spent with the various people; is that correct?

Mr. LEWIS. That is what they said, yes. May I say that that was a conference telephone call.

Mr. SIKORSKI. These notes came from a conference telephone call of the various people that you had——

Mr. LEWIS. They were all together. That was a group together with Mr. Boileau, up at Land Systems, and the others as I remember were in my office.

So we were all listening at the same time.

Mr. SIKORSKI [continuing]. In here there is a note you made, "Wants long-term opportunity. Has told Thayer and Lehman that he was leaving," and there was some discussion, at least with Mr. Sullivan. Mr. Sullivan does what?

Mr. LEWIS. He is retired. He was vice president for industrial relations.

Mr. SIKORSKI. Does he do personnel work?

Mr. LEWIS. Yes.

Mr. SIKORSKI. There is a discussion with Mr. Sullivan, at least according to your notes, of his salaries at Bechtel and at McMullen and both initial and final salaries with McMullen. Do you recall that discussion?

Mr. LEWIS. I recall the notes.

Mr. SIKORSKI. And their impressions were generally positive, the people that met him, isn't that correct?

Mr. LEWIS. They were generally positive. They were all, as the notes clearly indicate, very concerned whether there was a position that could be generated that would not reflect a conflict of interest.

Mr. SIKORSKI. Right. There was a concern about conflict of interest.

Mr. LEWIS. And on his part too, I might add.

Mr. SIKORSKI. He then sent a thank-you letter to you with his home address on it.

Dear David: My thanks to you and your team for making my trip to St. Louis so fulfilling and informative. I was highly encouraged by the convergent views held by all with whom I conversed. The company is ably managed, doing well and knows where it is headed. The leadership and vision provided by its most capable CEO shows. I deeply appreciate the time and consideration which you and your very busy executives extended to me. Warm regards, George A. Sawyer.

As I understand it, Mr. Sullivan sent you a memo dated March 28, 1983, summarizing his discussions for the file, copy to you, summarizing his discussions with Mr.—"George A. Sawyer," he said, "He is ready to move and highly interested in G.D. His income during the period rose to 150 K, 30 K, which was overseas premium talking about Bechtel."

Do you remember getting that, seeing that?

Mr. Lewis. Yes, I do.

Mr. Sikorski. Mr. Chairman, at this point I have a series of documents. I would like unanminous consent to insert them in the record.

Mr. Dingell. Without objection, it is so ordered.

[Testimony resumes on p. 543.]

[The documents follow:]

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U.S. House of Representatives
Committee on Energy and Commerce
Room 2125, Rayburn House Office Building
Washington, DC 20515
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS

March 18, 1985

The Honorable Caspar W. Weinberger
Secretary of Defense
Department of Defense
The Pentagon
Washington, D. C. 20301

Dear Mr. Secretary:

In connection with the Subcommittee on Oversight and Investigations' inquiry into matters pertaining to the General Dynamics Corporation, it is requested that the following information be furnished:

1. copies of all letters, memoranda, reports, notes and other documents which pertain to the conflict of interest allegations with respect to former Navy Assistant Secretary George Sawyer;
2. copies of any conflict of interest determinations made by the Navy or Department of Defense General Counsels' Offices with respect to George Sawyer; and
3. copies of any Navy documents that were furnished to the Office of Government Ethics which pertained to George Sawyer and the conflict of interest allegations.

The Subcommittee has scheduled a hearing with General Dynamics on March 25, 1985. It is, therefore, requested that the Subcommittee be furnished with a complete response by Wednesday, March 20, 1985. If you have any questions regarding this request, please contact Messrs. Michael Barrett or Peter Stockton at 225-4441.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

BEST COPY AVAILABLE

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

20 March 1985

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This replies to your letter of March 18, 1985, requesting information with respect to Mr. George A. Sawyer, the former Assistant Secretary of the Navy (Shipbuilding and Logistics). Your specific requests and a tabulation of the information responsive thereto follows:

1. "copies of all letters, memoranda, reports, notes and other documents which pertain to the conflict of interest allegations with respect to former Navy Assistant Secretary George Sawyer."

a. Handwritten memo dated June 3, 1983, from Captain Pat Turner, JAGC, USN to file.

b. Handwritten memo from Mr. T.J. Miller to Mr. Sawyer with a draft of Mr. Sawyer's termination SF-278.

c. Handwritten memo dated 21 June 1983, from Captain Turner to Mr. Sawyer forwarding Mr. Sawyer's termination SF-278 to him for signature.

d. Handwritten memo dated June 27, 1983, from Captain Turner to Mr. Tate forwarding Mr. Sawyer's termination SF-278.

e. Memorandum dated 2 June 1983, from Captain (now Commodore Campbell) and Mr. Tate to the Acting Navy General Counsel.

f. Memorandum dated 19 September 1983, from Mr. Tate to the Navy General Counsel regarding Mr. Sawyer's termination SF-278.

g. Memorandum dated May 5, 1983, from Mr. Sawyer to the Chief of Naval Material.

h. Memorandum dated December 6, 1984, from Mr. Tate to file.

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2. "copies of any conflict of interest determinations made by the Navy or Department of Defense General Counsels' Offices with respect to George Sawyer."

Documents responsive to this request are provided under 3. below.

3. "copies of any Navy documents that were furnished to the Office of Government Ethics which pertained to George Sawyer and the conflict of interest allegations."

Letter dated 14 October 1983, from the Navy General Counsel to the Director, Office of Government Ethics with enclosures. The determinations requested in 2. above are the statement of the Navy General Counsel on page 1 of Mr. Sawyer's termination SF-278 and the Acting Navy General Counsel's memorandum to Mr. Sawyer of 3 June 1983.

Your request has been coordinated with the Department of Justice which advises that the foregoing documents are part of an ongoing criminal investigation and that release could interfere with the investigation and prejudice the rights of individuals involved. The information is therefore being provided on the understanding that it will not be released without coordination with the Chief, Fraud Section, Criminal Division, Department of Justice.

Sincerely,

John Lehman
Secretary of the Navy

Enclosures

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OFFICE OF
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

MEMORANDUM

SPECIAL ASSISTANT (LEGAL)

21 June 83

Mr. Sawyer —

Enclosed for your signature by Friday is your SF-278 (Financial Disclosure) Termination Report.

This has been reviewed and chopped by the OGC Ethics Counsel, Ted Tate.

V/Respy,

Pat Turner

CAPT, JAGC, USN

OK
W

OFFICE OF
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

MEMORANDUM for: Mr. Taft, OGC

SPECIAL ASSISTANT (LEGAL)

6/27/83

Ted —

Attached is Mr. Sawyer's termination SF-278 report.

V/R,
Pat Turner
CAPT, JAGC, USN

Signed, but not approved by G.C. due to change in facts.

2 June 1983

MEMORANDUM FOR THE ACTING GENERAL COUNSEL, DEPARTMENT OF THE NAVY

Subj: Relations regarding employment between Mr. George A. Sawyer, Assistant Secretary of the Navy (S&L) and General Dynamics Corp.

1. At your request we have examined the facts and circumstances surrounding Assistant Secretary Sawyer's request to resign his position and potential employment with General Dynamics Corporation. Mr. Sawyer and his staff have provided the following information:

✓ a) During the month of May 1983, Mr. Sawyer has not participated in any matter involving General Dynamics Corporation.

b) Although it was generally known that Mr. Sawyer was planning to leave Government service, up until May 20, 1983, neither he or an agent had negotiated with defense industry representatiyes regarding his future employment.

c) On or about 20 May 1983, the possibility was raised by a General Dynamics representative of a position coming open with that Corporation in land systems and international management, but was not pursued further by either party at the time. On the same date, Mr. Sawyer decided that he would like to explore what the land systems and international operations management job entailed. By memorandum of 20 May 1983, he alerted the Secretary of the Navy that he was considering employment with private industry in the area of his expertise and requested that he be relieved of all his responsibilities relating to Navy shipbuilding.

(d) On advice of counsel, Mr. Sawyer, by memorandum to the Secretary of the Navy and others, dated 26 May 1983, disqualified himself from participating in matters involving two companies which included General Dynamics Corporation.

(e) On May 27, 1983, Mr. Sawyer requested greater detail from General Dynamics regarding the previously referred to management position in land systems and international. On the same day, General Dynamics provided the requested information and made a verbal offer of employment for Mr. Sawyer's consideration. Over the Memorial Day week-end, Mr. Sawyer gave extensive consideration to the General Dynamics offer and decided to accept it contingent upon his resignation being accepted by the President.

2. Based on the foregoing information, it is our opinion that Mr. Sawyer has complied with the conflict of interest laws, mainly 18 U.S.C. 208, and the Standards of Conduct in his exploration and negotiation for employment with General Dynamics Corporation. It is further our opinion that having disqualified himself from participating in matters involving General Dynamics, he may lawfully accept employment to commence after his resignation is effective.

3. Mr. Sawyer has been advised by us with respect to the post-employment restrictions on Senior Employees set forth in 18 U.S.C. 207. With respect to these restrictions, discussions with General Dynamics revealed that his prospective assignment involves land systems and international operations in which there will be no involvement with the Department of the Navy.

H. D. Campbell, Captain
JAGC, USN

James T. Tate, Jr.
Assistant General Counsel (Ethics)
Department of the Navy

Approved ________
Disapproved ________

DEPARTMENT OF THE NAVY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D. C. 20360

19 September 1983

MEMORANDUM FOR THE GENERAL COUNSEL

Subj: Termination Financial Disclosure Report (SF-278) of Mr. George A. Sawyer

1. This forwards the subject report for your review along with a letter by which it can be transmitted to the Office of Government Ethics pursuant to 5 C.F.R. §734.602(c). To assist in your review, I have enclosed the following documents:

Memorandum For The Secretary of The Navy from the Assistant Secretary of the Navy (S&L), dated 20 May 1983, subj: OASN (S&L) Action on Navy Shipbuilding

Memorandum For The Secretary of The Navy et als from the Assistant Secretary of the Navy (S&L), dated 26 May 1983, subj: Disqualification To Act in Certain Matters

Memorandum For The Assistant Secretary Of The Navy (S&L) from the Acting General Counsel, Relations regarding employment between Mr. George A. Sawyer and General Dynamics Corporation

Mr. Sawyer's annual report for 1982

SECNAV NOTICE 5430, 10 June 1981, subj: Establishment of the Position and Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics)

2. With the exception of Mr. Sawyer's comments in Schedule D regarding possible employment, his disclosure is generally the same as on his 1982 annual report which you reviewed in May. In his remarks, he provides the following information:

a) Between 3 May 1983 and 20 May 1983, he had "discussions re employment - no terms or conditions discussed - express or implied" with officials of TRE Corp., McDermott Corp., and General Dynamics Corp.

b) On 27 May 1983, he had "definitive negotiations re possible employment - terms and conditions discussed" with officials of General Dynamics Corp., and TRE Corp.

c) On 1 June 1983 he entered into a "contingent employment agreement effective upon acceptance of resignation" with General Dynamics.

3. 18 U.S.C. 208 makes it a crime for a Government officer to participate personally and substantially in a particular matter in which an entity with which "he is negotiating or has any arrangement concerning prospective employment, has a financial interest." In light of his position description, Mr. Sawyer's comments raise the question of whether 18 U.S.C. 208 may have been violated. It is my opinion, however, that the question has been resolved. With respect to General Dynamics, the question is resolved by the facts developed in Mr. O'Neill's memorandum of 3 June 1983. With respect to McDermott Corp. and TRE Corp., I am advised by Captain Bill Miller, the Executive Assistant to the ASN (S&L) that Mr. Sawyer was never required to act or acted on any matter involving those companies. Among other endeavors McDermott is involved in shipbuilding and repair of power generation systems and equipment. Among other endeavors TRE manufacturers manufacturers aircraft components.

4. I recommend that you sign Mr. Sawyer's termination report along with the following note in the comments section:

> "Please note the comments on page 5, schedule D, under Relations With Other Employees. The circumstances have been examined and the conclusion drawn that there was no violation of law or regulation. ~~Mr. Sawyer did not participate in any matter involving McDermott, Inc. or TRE Corporation during his tenure in office.~~ By memorandum to the Secretary of the Navy, dated 26 May 1983, he disqualified himself form participating in any matter involving TRE Corporation and the General Dynamics Corp. or any subsidiary or affiliate of such corporations."

J.T.T.

I have discussed this recommendation with Mr. Gary Davis, a senior attorney at the Office of Government Ethics, and he concurs.

James T. Tate, Jr.
James T. Tate, Jr.
Assistant General Counsel (Ethics)

Enclosure

BEST COPY AVAILABLE

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D C 20350

MAY 5 1983

MEMORANDUM FOR THE CHIEF OF NAVAL MATERIAL

Subj: Class D&F for Construction of FY 84/85 SSN-688 Class Submarines
(RAN 12,497, D&F 83-2148, Log #93)

The subject Class D&F is returned subject to the condition that I am briefed on the result of the competitive negotiations prior to contract award and exercise of any options approved under this Class D&F.

GEORGE A. SAWYER
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Clearance #12,497
NAVSEA CD&F No. 83-2148

Department of the Navy
DETERMINATION AND FINDINGS

Authority to Negotiate a Class of Contracts

Upon the basis of the following findings and determination which I hereby make as Agency Head, the proposed class of contracts described below may be negotiated without formal advertising pursuant to the authority of 10 U.S.C 2304 (a)(16).

FINDINGS

1. The Naval Sea Systems Command proposes to acquire by negotiation a class of contracts for a total of seven (7) SSN 688 Class submarines (three FY 84, firm; four (4) FY 85, option). The proposed acquisitions will also provide for the furnishing of associated technical documentation and on-board repair parts and options for stock repair parts and components.

2. The construction of nuclear submarines is a highly technical and specialized field which requires the availability of experienced manpower in the event of a national emergency and to meet the requirements of an increased shipbuilding program.

3. Currently, there are two builders of SSN 688 Class submarines: Electric Boat Division of General Dynamics Corporation and Newport News Shipbuilding and Dry Dock Company. The only other private shipyard to build nuclear submarines during the past decade, the Ingalls Shipbuilding Division of Litton Industries, delivered its last submarine, SSN 683 (SSN 637 Class), in 1975. Ingalls has never built an SSN 688 Class submarine and no longer possesses a nuclear submarine new construction capability. Under existing SSN 688 Class construction contracts, Newport News and Electric Boat have developed the capability to construct SSN 688 Class nuclear submarines. The continued existence of the two builders capable of constructing nuclear submarines is essential to meet current and projected requirements, as well as national emergency needs.

4. Acquisition by negotiation for the above mentioned submarines is necessary to maintain the nuclear submarine construction capabilities of existing shipyards. In the event of a national emergency, the requirements for construction of attack type submarines would exceed the construction capability of a single private shipyard. Production capability of these submarines must be kept intact because of the substantially increased submarine construction program which is necessary to maintain current SSN submarine force levels. The redevelopment of new construction capability requires a significant amount of time. A lapse in construction would inevitably result in the loss of capability that would severely limit the Navy's ability to respond to the projected requirements for submarine construction and to respond in the event of a national emergency.

5. Acquisition on the above described basis is, therefore, necessary to ensure the continued existence of two shipbuilders as viable suppliers of nuclear attack submarines. Accordingly, use of formal advertising for acquisition is impracticable.

Clearance #12,497
NAVSEA CD&F No. 83-2148

DETERMINATION

It is in the best interests of national defense that Newport News Shipbuilding and Electric Boat Division of General Dynamics be kept available for the construction of nuclear submarines in the event of a national emergency. Acquisition of the proposed SSN 688 class submarines by negotiation is therefore a necessity.

This Class Determination and Findings will remain in effect for a period of one year after approval.

5/5/83

George Sawyer

GEORGE A. SAWYER
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, D.C. 20360

4 MAY 1983

ACQUISITION AND CONTRACT POLICY

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

Via: Principal Deputy (Shipbuilding and Logistics)

Subj: NAVSEA Class D&F for Construction of Up to Seven SSN688 Class Submarines

Encl: (1) NAVMAT memo, Subj: Request for Authority to Negotiate No. 12,497 and attached D&F No. 83-2148 dtd 26 April 1983

Pro F.

Exception (16)

o Interest of national defense or industrial mobilization.

Extent of Competition

o Competition between Electric Boat and Newport News Shipbuilding.

Data Rights

o The government owns the data necessary for this procurement.

Estimated $ Value

o FY 84 (Firm) (SCN)	
3 Submarines	$1,770.2M
Long Lead Material for FY 86	336.0M
	$2,106.2M
FY 85 (Option) (SCN)	
4 Submarines	$2,455.6M
Long Lead Material for FY 86	135.6M
Long Lead Material for FY 87	408.6M
	$2,999.8M
TOTAL firm plus option	$5,106.0M

Type of Contract

o Fixed Price Incentive with Escalation, Shareline is 50/50 over and under target with a ceiling of 130.4% of target as directed in the solicitation.

o Enclosure (1) has been reviewed and the following additional background information and/or issues are identified for your consideration.

MAY 5 1983

GEORGE A. SAWYER
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Issues and/or Additional Background Information

o Negotiations are to be designed to obtain maximum competition consistent with the maintenance of submarine new construction capabilities at both ship yards. The acquisition plan provides for award of all ships to one contractor or awards of any combination to both yards. A conditioning memorandum is attached to ensure your approval of the NAVSEA negotiated plan prior to award.

o VLS will be incorporated into these ships as will SUBACS Basic.

o The solicitation will include the cost/schedule control systems requirement of DODI 7000.2.

Recommendation

o Secretarial signature on the attached D&F and conditioning memorandum.

Very respectfully,

W. B. RAUENSTEIN

SP

AV
#93/RLK

From: Chief of Naval Material
To: Assistant Secretary of the Navy (S&L)

Subj: Request for Authority to Negotiate SEA 12,497 and D&F 83-2148

1. The attached CDF is recommended for approval.

MAT 02B

2. Negotiation authority is requested for a class of contracts for construction of seven (7) SSN 688 Class High Speed Nuclear Submarines. Contracts will be negotiated for the FY 84-85 requirements for up to seven (7) ships; three (3) firm for FY 84 and options for four (4) for FY 85. Associated technical documentation and on-board repair parts with options for stock repair parts and components will also be negotiated.

MAT 022B

3. Requests for proposals will be issued to Newport News Shipbuilding and Electric Boat Division. A competitive acquisition will be utilized which will permit award of the ships to one builder or in any combination to both builders. Award of the ships will be based on the Navy's determination of which award pattern is most advantageous, price and other factors considered, including the consideration of the award pattern best maintaining the existing industrial base.

MAT 0221

MAT 0221A

	FY 84 & 85	Incl. Prior LLTM
4. Estimated Value	$4,225.8M	$4,844.9
FY 84	$1,770.2M	$1,985.0
FY 85	$2,455.6M	$2,859.9

5. Exception (16) - Competitive
Newport News Shipbuilding and
General Dynamics Electric Boat Div.

6. Fixed Price Incentive Contracts with escalation

7. The subject RAN/CDF is in general conformance with NAVSEA Acquisition Plan (AP) No. 143-84-85, enclosure (1) to the RAN, which is currently under CNM review.

John H. Flaherty

[illegible] Material
[illegible]
(Contracts [illegible])

CNM Log #(93)

Memo to the File

Re: CDeF concerning submarines
requested by Mr. Sawyer
on 5 May 1973 with staff
memo and CIA memo

Captain Mike Brown, JAGC, USN, ASN (I&L) staff on my request queried Mr. Pyatt concerning the business sensitivity of the two memos attached to the CDeF. He advised that Mr. Pyatt said the information was now historical. The [illegible] [illegible] budget information. – With respect to Mr. Sawyer's covering memo on the CDeF to the effect that he wanted to review business confidential [illegible], Mr. Pyatt will be made the review (late Friday) and not Mr. Sawyer. J.T.T.

14 OCT 1983

The Honorable David H. Martin
Director
Office of Government Ethics
Office of Personnel Management
1900 E Street, N. W. (Room 436H)
Washington, D. C. 20415

Dear Mr. Martin:

Pursuant to 5 C.F.R. §734.602(c), there is hereby transmitted a copy of the Termination Financial Disclosure Report (SF-278) of the Honorable George A. Sawyer, who resigned as the Assistant Secretary of the Navy (Shipbuilding and Logistics) June 25, 1983.

With respect to my comment at the bottom of page 1, I have enclosed for your information the following documents:

> Memorandum For The Secretary Of The Navy from the Assistant Secretary of the Navy (S&L), dated 20 May 1983, subj: OASN (S&L) Action on Navy Shipbuilding
>
> Memorandum For The Secretary Of The Navy from the Assistant Secretary of the Navy (S&L), dated 26 May 1983, subj: Disqualification To Act in Certain Matters
>
> Memorandum For The Assistant Secretary Of The Navy (S&L) from the Acting General Counsel, dated 3 June 1983, subj: Relations regarding employment between Mr. George A. Sawyer and General Dynamics Corporation

Please advise me if you require any additional information for your review of Mr. Sawyer's report.

Sincerely,

(Signed) WALTER T. SKALLERUP, JR.

Walter T. Skallerup, Jr.

Enclosures

bcc: TT Day File , 9/19/83 pab
WTS File

DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, D.C. [illegible]

20 May 1983

ADMINISTRATIVE PRIVACY

MEMORANDUM FOR THE SECRETARY OF THE NAVY

SUBJ: OASN(S&L) Action on Navy Shipbuilding

As I have discussed with you earlier, I plan to return to private industry in the near future and have been considering a number of employment options available to me because of my previous experience in civilian engineering and business management.

I am concerned, however, that my ultimate decision may later create a perception that a conflict of interest existed during my tenure as ASN(S&L). Therefore, to preclude the possibility that a perceived conflict of interest would later embarrass the Department of the Navy, I have decided to remove myself from all parts of the internal decision process relative to contract awards in Navy shipbuilding, effective immediately, until and unless I decide that my follow-on civilian career will not create any perception of impropriety.

Mr. Everett Pyatt, my Principal Deputy for Shipbuilding and Logistics, will assume responsibility for policy level decision review and approval in this area until future notice. Your concurrence in this action is requested.

GEORGE A. SAWYER

Concur

DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, D.C. 20360

26 May 1983

MEMORANDUM FOR THE SECRETARY OF THE NAVY
THE CHIEF OF NAVAL OPERATIONS
THE COMMANDANT OF THE MARINE CORPS
THE ASSISTANT SECRETARY OF THE NAVY (RE&S)
THE GENERAL COUNSEL OF THE NAVY
THE DEPUTY UNDER SECRETARY OF THE NAVY FOR FINANCIAL MANAGEMENT
THE PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY (S&L)

SUBJ: Disqualification to Act in Certain Matters

I am disqualified from participating in any particular matter involving TRE Corporation and General Dynamics Corporation or any subsidiary or affiliate of such corporations.

No matter as to which I am disqualified as aforesaid should be presented to me for decision, approval or disapproval, recommendation, advice, investigation, or other official action. In the event that any such matter does arise requiring the attention or participation of the Assistant Secretary of the Navy (S&L), it should be referred to the Secretary or as he shall otherwise direct.

GEORGE A. SAWYER

Copy to:
EA to ASN(S&L)

GENERAL COUNSEL OF THE NAVY
WASHINGTON, D.C. 20350

3 June 1983

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

Subj: Relations regarding employment between Mr. George A. Sawyer and General Dynamics Corporation

1. At your request, I have examined the facts and circumstances surrounding your request to resign your position in order to accept employment with General Dynamics Corporation. You and your staff have provided the following information:

(a) You last participated in a matter concerning General Dynamics on May 5, 1983, when you executed a Class Determinations and Findings under the authority of 10 U.S.C. 2304(a)(16) authorizing the negotiation of contracts for SSN 688 Class submarines with Electric Boat Division of General Dynamics Corporation and Newport News Shipbuilding and Dry Dock Company. These are the only two builders of that class submarine.

(b) Prior to May 20, 1983, neither you nor anyone on your behalf had negotiated with any defense industry representatives regarding your future employment.

(c) On or about 20 May, 1983, the possibility was raised by a General Dynamics' representative of a position becoming available with that corporation in land systems and international operations management. On the same date, you decided that you would like to explore what that position entailed. Therefore, by memorandum of 20 May, 1983, you informed the Secretary of the Navy that you were considering employment with private industry in the area of your expertise and requested that you be relieved of all of your responsibilities relating to Navy shipbuilding. The Secretary of the Navy concurred in your request.

(d) By memorandum to the Secretary of the Navy and others dated 26 May, 1983, as an amplification of your memorandum of 20 May, 1983, you specifically disqualified yourself from participating in matters involving General Dynamics Corporation or any of its subsidiaries or affiliates.

(e) On May 27, 1983, you requested greater detail from General Dynamics regarding the previously referred to management position in land systems and international operations management. On the same day, General Dynamics provided the requested information and made a verbal offer of employment to you for consideration. Over the Memorial Day weekend, you gave extensive consideration to the General Dynamics offer and decided to accept it contingent upon your resignation being accepted by the President.

2. Based on the foregoing information, it is my opinion that you have complied with the conflict of interest laws, mainly 18 U.S.C. 208, and the Standards of Conduct in your exploration and negotiation for employment with General Dynamics Corporation. It is further my opinion that having disqualified yourself from participating in matters involving General Dynamics Corporation, you may lawfully accept employment to commence after your resignation is effective.

3. I note that you have been advised orally and in writing by this Office with respect to the post-employment restrictions on Senior employees set forth in 18 U.S.C. 207. These restrictions will govern your future involvement in both U.S. Navy and Marine Corps programs.

(signed) HUGH O'NEILL
Hugh O'Neill
Acting General Counsel

NINETY-NINTH CONGRESS

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WM. MICHAEL KITZMILLER, STAFF DIRECTOR
THOMAS M. RYAN, CHIEF COUNSEL

U.S. House of Representatives
Committee on Energy and Commerce
Room 2125, Rayburn House Office Building
Washington, DC 20515

SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS

March 18, 1985

Mr. David S. Lewis
Chairman of the Board
General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 63105

Dear Mr. Lewis:

In your testimony before the Subcommittee on Oversight and Investigations on February 28, 1985, you stated that your personal use of the corporate aircraft never exceeded $25,000 for any of the years 1978-1983. As you know, there is a Securities and Exchange Commission (SEC) reporting requirement whenever such perks exceed $25,000 in any single year. In view of this reporting requirement, please provide the Subcommittee with all documents, memoranda and other materials developed each year by General Dynamics to support your testimony and lack of reporting to the SEC. I understand that in a November 1984 Subcommittee staff interview, you promised the staff access to this information, but later refused to provide access. Please explain why you are refusing to make this information available.

It is also requested that the Subcommittee be furnished with the following information:

-- Total compensation of the top 50 executives and board members of General Dynamics broken down by salary and other benefits.

-- General Dynamics' written report on gratuities that was requested during the Subcommittee hearing. We understand that this was submitted to the Navy Gratuities Board.

-- Clarify the date contained in the Board of Directors and Executive Committee minutes of October 1977 -- that was provided by the Subcommittee staff to Mr. John Stirk of your Washington office. If there is continued confusion, please provide the original notes of Mr. John P. Maguire, the Secretary to the Board of Directors, and Mr. Wesley C. Hall, the Secretary of the Executive Committee.

-- Provide all books, records, memoranda, tapes, vouchers, etc., involving all contacts between George Sawyer, the former Assistant Secretary of the Navy, and all General Dynamics officers, directors, and employees concerning Sawyer's possible employment with General Dynamics. Of particular interest are notes or recordings of telephone conversations between David Lewis and members of the Board of Directors and senior management staff, who had contact with Mr. Sawyer, including, but not limited to, Burt Jenner, Lester Crown, Nathan Cummings, and Henry Crown.

In that this request was made verbally to Mr. Stirk on March 14, 1985, please provide this information to the Subcommittee by Wednesday, March 20, 1985. If you have any questions, please call Michael Barrett or Peter Stockton of the Subcommittee staff at 225-4441.

Thank you for your cooperation in this matter.

Sincerely,

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

JDD:PScm

GENERAL DYNAMICS

Washington Operations
1745 Jefferson Davis Highway, Arlington, Virginia 22202
703 553-1200

22 March 1985

Honorable John D. Dingell
Chairman, Subcommittee on
  Oversight and Investigations
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

We are forwarding herewith documents requested during the hearing on 28 February and in your letter of 18 March 1985.

Specifically in response to your letter, the following comments apply:

Request:
"...All documents, memoranda and other materials developed each year by General Dynamics" with regard to the SEC reporting requirements on perquisites for David S. Lewis.

Response:
Memoranda and documents are furnished herewith.

Request:
Total compensation of the top 50 executives and board members of General Dynamics broken down by salary and other benefits.

Response:
Conversation with your staff indicates that your interest is in the same data required by the SEC, to determine if we are properly complying with SEC requirements. To that end we are furnishing a specific breakdown of salaries and other compensation for the five most highly compensated officers and directors and the total compensation of the top 25 executives as a group. In specific response to your letter request, we are also furnishing the total compensation of the top 45 executives ranking just below the 5 mentioned above, broken down by salary and other benefits.

Request:
General Dynamics' written report on gratuities that was requested during the Subcommittee hearing. We understand that this was submitted to the Navy Gratuities Board.

Response:
There was no written report on gratuities submitted to the

BEST COPY AVAILABLE

Navy Gratuities Board. Attorneys for General Dynamics presented an oral summary of our position at the Board hearing, covering both legal and factual issues.

Request:
Clarify the date contained in the Board of Directors and Executive Committee minutes of October 1977.

Response:
The date is correct.

Request:
Provide all books, records, memoranda, tapes, vouchers, etc., involving all contacts between George Sawyer, the former Assistant Secretary of the Navy, and all General Dynamics officers, directors, and employees concerning Sawyer's possible employment with General Dynamics.

Response:
All requested documents are provided herewith.

In response to requests at the hearing of 28 February 1985, the following comments apply.

-- General Dynamics Voluntary Political Contribution Plan contributions to political candidates for the period requested are furnished herewith. These are public documents filed with the Federal Election Commission.

-- Transcript of interview with the Washington Post is furnished herewith.

-- At the hearing, we were asked to submit a comment on the Washington Industrial Team (WITCO). This is a consulting company organized by former congressmen, Robert Wilson and Richard Ichord and several administative aides. WITCO, among other matters, represents companies in the defense industry on Washington based issues. General Dynamics for a period of about two years beginning in January 1981 was one of their accounts. WITCO is currently performing no services for General Dynamics.

Sincerely,

John J. Stirk

John J. Stirk
Corporate Director
Legislative Affairs and
Government Relations Counsel

Enclosures

George Sawyer — 20 MARCH 1985
LPV

OCB — (1+15) Hrs.

GS Talked about his experience, as segments
Much detail on Bechtel
~~Sales~~ $200 M ——→ $1 B
Left when passed over by Crony Admiral.
→ McMullen Co. — Done well — left alone
EB & QSD was dismissed. Great fan of Tower
Concerned with viability of QSD — long term.
No talent of Nuclear work.
Strengths — labor Rel. P. Mgr & Mgr of PM's
(at Bechtel) INTL.
Nothing on Salaries or possible jobs.
Conflict of interest was a problem

GEM — (1-20) HRS.

Described himself. Interested in America
& foreign.
Good → Tower — same worries about G.G.
Discussed GD organ. Got along with HR.
~~Ho~~ Thought he got along with Navy Bluesuit.
would leave on good terms.
Worried again about conflict of interest.
Close to image of Hilly Paige(?)

George Sawyer - Cont. - (2)

JRM - 1 HR.

Similar. Liked build - no building experience.
Liked maintenance for future.
Is he a roll-up-sleeves mgr ?

Smoked pipe.

WGS - (Very surprised at open knowledge - of major Bechtel comp -
Heavy concerns re govt/industry conft (DEA perception).
a) Navy b) GD c) ~~Administration~~.

WGS — GD is tough on facing media pressure

Talking to others

Took cut to go to McMullen
Bechtel 130K + 30K overseas
to McMullen 80K + [30 Bonus waived] 2 yrs.
(an Eng. Services Co.)
Final Salary 150K
Was in charge
Thought Service would be a good growth area
FSW - (45 MIN) -
Same subject. He believes he is hands-on ... change type.
Wants to have P&L responsibility.
Worried about conflict - " — decisions favorable to GD — "

George Sawyer – cont. – 1 [illegible]

AJ

FSW – Cont. –

Want long term opportunity.

Concerned that "Marine" only would be bad

Has told Thayer & Lehman that he was leaving DSA. –

Maybe concern is leverage. EB & DSD is a full plate.

Recommendation –

GRH – In favor, but what besides Marine

JRM. – Could contribute – good mental set
"Big program man". Good style.
Good intell.

FSW – Very positive to man. More than the right.
Need to get ourselves out first.

WGS – Think good – must add contr.

OCB – Value in Marine Q + EB + SV + INTL in Order
maybe Q + GDSC + INTL
EB later

Best Jenkins — —

George Sawyer -

Spent less time than he wanted 20 min. Very much impressed

Discussed problems of image/ conflict

Believes he will be a great asset — and that'll will be excellent

Steve Bechtel – 21 April 19

Re George Sawyer –

Thought that Geo. was able – ,

Dick Godwin – Exec Committee
415-768-6308

Dick Godwin

George Sawyer –

1. Not run anything big
Ran big ops. Not ppl
Mgr. Subs.
Good analytical mind. able
to make decisions – good.
2. Careful to understand.
3. Bit aggressive – hurts ppl in
way
Tough – "prickly" with his ppl.
~~Ambitious~~
Could do the job. [illegible] a question
of leadership to see that ops don't

Don't let get too far.
G. Was out of mainstream.
"Was not overlooked."

People under him liked
him or got rid of them.

Smarter now
"Sharp Elbow"

GENERAL DYNAMICS CORPORATION

Corporate Headquarters

Inter-Office Memo

DSL Memo No. 84-14
28 April 1983

To: File

From: D. S. Lewis

Subject: Reference Checks re George A. Sawyer

1. George Sawyer worked for the Bechtel Corporation of San Francisco from 1969 through 1976, when he left to become President and CEO of John J. McMullen Associates, Inc., in New York. At Bechtel he was involved in environmental systems, worked in business development and planning (marketing), spent nearly two years in Amman, Jordan as Manager of Far Eastern Operations and in 1976 became Vice President - International. Accordingly, I made the following contacts at Bechtel to obtain their views of Mr. Sawyer:

Stephen D. Bechtel, Jr.
Chairman, President and Director

Steve Bechtel knew George Sawyer - knew that he was well regarded by the people at Bechtel. Sawyer was an able man but Steve Bechtel felt that he was not sufficiently involved to be able to give very meaningful answers to questions that I might have with respect to Sawyer's performance. He did know that Sawyer was considered to be a very honorable man, very bright, very aggressive and very ambitious. He knew that Sawyer had left Bechtel when Sawyer did not obtain a particular job for which someone else was selected. (This confirms Sawyer's statement as to the reason why he left Bechtel.) Steve referred me to:

Richard P. Godwin
Director of Bechtel Group of Companies
President of Bechtel Civil & Minerals, Inc.

I talked to Dick Godwin for about half an hour. Godwin stated that he knew George Sawyer quite well, since Sawyer had worked for Godwin. I told him that we were considering employing Sawyer to oversee the operations of one or more of our divisions, while being based in the Corporate Office in St. Louis. I described the type of work done in the divisions such as E.B., Quincy and Land Systems as examples. The following summarizes the comments by Mr. Godwin:

(a) Sawyer ran some very big projects for Bechtel, although he did not supervise large numbers of people. As in the case with any Engineering General Contractor, Bechtel employed large numbers of subcontractors to supply needed personnel.

(b) Sawyer has a very good analytical mind and he took great care to insure that he fully understood a situation before deciding what action should be taken. He is very alert to changes that would indicate the need for action and he generally made good decisions and had no trouble making them in a timely manner.

(c) Sawyer is "a bit aggressive." Along the way he has hurt some people that were in his way, although this seemed to be less a factor in later years at Bechtel. He is very tough and "prickly" with his people, however, he got rid of people he felt were not performing and the people that did work for him for a period of time liked him very much.

(d) Sawyer was very upset that he did not get the job which became available. He felt that because he was in Jordan, he was out of the mainstream, however, Godwin said that Sawyer was considered for the job, but Bechtel management felt that he was not quite ready for it at the time. As a result of Sawyer's disappointment, he went to the McMullen firm.

(e) Mr. Godwin believed that Sawyer could do the job that was described and would do it very well, however, he recommended that Sawyer be kept on a "short leash" until he fully understood how our company operated and exactly what was expected of him.

(f) It was Godwin's opinion that Sawyer's "driving ambition" has mellowed substantially in the past sixteen years and that his "sharp elbows" are rounded out by now. Apparently, Godwin has kept track of Sawyer over the years.

(g) All in all, Godwin felt that Sawyer was a very good man with an excellent mind, totally trustworthy and he stated that Bechtel would be very happy to have Sawyer return if they had a job that would challenge Sawyer.

D. S. Lewis

David S. Lewis
Chairman

BEST COPY AVAILABLE

George Sawyer -

SJL

1. Discussed idea of GDLS + INTL + GDS with eye to marine maybe down the road.

2. If ~~so~~ he is interested, he would talk to HC + LC + others.

Nate Cummings -

13 MAY 1985
SJL

1. Two Hour appt with Sawyer
2. Excellent man - very straight forward
3. Smokes a pipe (?).
4. Willing to travel. Knows his way around.
5. Excellent character

Tom Ayres - 11 May 11:15

Re George Sawyer - Met 16 May 1½ hrs

1. Very impressed - fine executive Enchanted with him. Could do great job. Attractive. Would fit well at GD.
2. Still worried about flack from Press.
3. GS concerned, but he would be coming from the Navy. We can survive the flack.
4. Agree we should ~~have~~ tie in a joint agreement with Navy Secy.
5. T.A. recommends subject to

Milt Falkoff – | 11 May 1953 M.

George Sawyer –

Had lunch – was very impres- a personality (

favorably inclined toward G.S.

Can not comment on technical competence

Hopes he can get into Marine before too long.

Lester Crown –

18 May 19

[illegible]

Re. George Sawyer

Very good man. Would like to have GS – if we think he could be a contributor.

Could he be a hands on man to run a division?

Agreed we need more talent in the company. Is there someone else anywhere in the U.S. ~~that~~ we know? – Yes – but not available (?).

HC very positive re' individual. Wants ~~to~~ ~~B~~ GS to meet with HC, if HC decides.

Agreed we wait as if we get positive reaction from J.L. & P.T.

Best Jenkins — –

10 Aug

George Sawyer –

Spent less time than he wanted 20 min. Very much impressed.

Discussed problems of image/ conflict.

Believes he will be a great asset — and int'l will be excellent

BEST COPY AVAILABLE

Henry Owen —

Re George Seignious

1 Met with G.S.
Very impressed — but again we must check agreement of DoD.

GS Bright
Open
Direct

Good meeting. Wants him

~~8:58~~
~~1:00~~

Elliot Stern — [illegible]

Re George Sawyer –

Very impressed. Class. Credit to organization.

Can not comment on Technical.

Very open – easy, direct.

Feels.

G.S. Had 20 minutes with Weinberger –

Weinberger regrets – urged GS stay.

GEORGE SAWYER –

PROPOSED: SALARY – $210,000 + IC

OPTIONS – ~~75,000~~ / 50,000

DIRECTOR.

EXECUTIVE V.P. – ~~E~~AND SYSTEMS & INTERNA

DESCRIBE MTGS
WITH THAYER   ARMY OK – RESIGN FIRST
NAVY → LEHMAN

LEHMAN – STRONG BOOSTER
LETTER FROM COUNSEL RE COUR
SKELLERUP

SAWYER RESIGN TODAY → COUNSEL ↑ LETTER
→ HAS OTHER OFFERS – DECIDE OVER WEEKEN

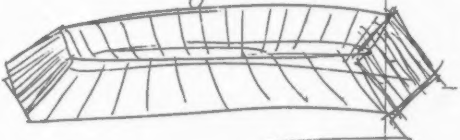
George Sawyer – [illegible]

Accepts 1 July Reporting.

Daughter H.S in VA.

CAROL – Son 8th grade
12 yrs old

③



Big House

~~4 or~~ 5 Bed Rooms

Letter of Offer

307 Yoakum Parkway, APT 1710
Alexandria, Virginia 22304
June 7, 1983

Mr. David S. Lewis
Chairman of the Board
and Chief Executive Officer
General Dynamics
Pierre Laclede
St. Louis, Missouri 63105

Dear David:

I am in receipt of your recent letter and, as confirmed in our telephone call of Monday last, am most pleased to accept your most generous offer of employment with General Dynamics.

As requested, attached you will find a memorandum from the Acting General Counsel of the Navy regarding ethics considerations of my pending employment with the Company. Please note that the emphasis on the word "negotiations" attest to the fact that neither party had discussed specific terms and conditions pertinent to an offer of employment prior to May 26, 1983.

In summary, it is the opinion of Counsel that there are no outstanding issues relating to a perceived or possible conflict of interest involving my pending employment with GD in the position described in your offer.

Thank you again for your strong support and personal confidence in me. As indicated, I fully intend to give you and GD "110%" and I look forward to seeing you on or about 1 July when I expect to report for work in St. Louis.

Sincerely,

George

GEORGE A. SAWYER

RECEIVED

JUN 8 1983

Office Of
The Chairman

GENERAL DYNAMICS CORPORATION
Corporate Headquarters

Inter-Office Memo

WGS-83-70
28 March 1983

To: File

cc: David S. Lewis

From: Warren G. Sullivan

Subject: George A. Sawyer

1. He is ready to move and highly interested in GD. He has a concern which he has not yet sorted out in his own mind about Washington perceptions concerning joining our Company. His operating background is broader than would appear from his resume. While with Bechtel, he had sole charge of various programs including several in Saudi. His income during that period rose to $150K; $30K which was overseas premium.

2. He apparently was "passed over" in his view by Bechtel for a division head spot. In spite of the new title of Vice President International, he turned in his resignation. His position with McMullen was not directed or controlled by McMullen. He says he was in full charge noting that the company went from a loss position of two years to one of reasonable profit. His initial salary with McMullen was lower than it had been with Bechtel. He had regained the Bechtel level by the end of his stay, salary and bonus combined. GD Services Company is a real opportunity area and parallels his experience in engineering services and international.

3. His Navy experience, knowledge of the marine business, and his ability to work hard and charm people are all well known to you. He looks very good.

Warren

RECEIVED
MAR 23 1983
[illegible]
The Chairman

GENERAL DYNAMICS CORPORATION
Pierre Laclede Center
St. Louis, Missouri 63105

1 June 1983

David S. Lewis
Chairman and Chief Executive Officer

314-889-8234

The Honorable George A. Sawyer
Assistant Secretary
for Shipbuilding and Logistics
Department of the Navy
Washington, D.C. 20360

Dear George,

We are delighted that you have decided to join General Dynamics on 1 July 1983. We are confident that you will make a significant contribution to the success of this company and that you will enjoy working with our many good people.

I would like to confirm the employment offer which I made to you on the telephone on 29 May. This offer had been approved by the Executive Committee of our Board of Directors prior to that telephone conversation:

Position:	Executive Vice President - Land Systems and International This would also include management of the General Dynamics Services Company
Directorship:	You will be elected as a member of the Board of Directors at its first meeting after you come on board. That meeting is scheduled for 4 August 1983.
Annual Salary:	$210,000
Stock Option Award:	50,000 shares at the fair market price on your initial date of employment. These options are valid for five years, with 25% being exercisable after one year and an additional 25% being exercisable each year thereafter. The option exercise rights are

cumulative and none need be exercised at any particular date prior to the end of the five year period. The majority of these are basically non-qualified options, however, Incentive Stock Options will be awarded to the legal limit of $100,000 face value.

You will be a participant in the Incentive Compensation Plan and in all other employee and Director benefits. You will be a participant in the General Dynamics Retirement Plan immediately, however, in accordance with its provisions, you will be eligible for participation in the Stock Savings and Investment Plan only after one year of service with the company.

We are very pleased that Navy Counsel has indicated that there are no problems with respect to a conflict of interest in this new job and that his opinion is shared by the Counsel of the Department of Defense Ethics Council. We agree that this opinion should be on file in the Navy Department, however, we would appreciate receiving a copy for our files.

We are confident that you will find St. Louis a good place to live and we can be of real assistance in making your move from Washington about as painless as those difficult operations can be. Please let us know when Carol and/or you can be here and we will make arrangements so you both can look at houses, school districts, etc., in a reasonably short time. I have asked Warren Sullivan to send you a set of the "benefits booklets" and a description of the General Dynamics' moving plan. If you have any questions in this area, please call him or me.

Again, we are delighted that you will be joining our company and we look forward to 1 July with enthusiasm.

Sincerely,

GENERAL DYNAMICS CORPORATION

Dave

David S. Lewis
Chairman

ATTACHMENT 4(a)

4. Election of George A. Sawyer as Executive Vice President

Mr. Lewis reported that on 31 May 1983 George A. Sawyer, Assistant Secretary of the Navy, had accepted employment as Executive Vice President-Land Systems and International of the Corporation on the basis authorized by the Executive Committee at its meeting on 26 May 1983. The arrangement is subject to obtaining an opinion from the General Counsel of the Navy that Mr. Sawyer's employment by the Corporation would not violate any applicable law, rule or regulation covering conflicts-of-interest or otherwise and that the Navy and the Department of Defense are satisfied that there are no legal or ethical problems involved. The General Counsel of the Navy and the Department of Defense currently have the matter under consideration.

Mr. Lewis reviewed the circumstances leading to the offer to Mr. Sawyer and his decision to accept, noting particularly that Mr. Sawyer had made the decision to resign from the Navy and that his resignation was on file with the Navy before the Corporation made its offer to him.

As an Executive Vice President, Mr. Sawyer will be responsible for Land Systems, International and General Dynamics Services Company.

Mr. Mellor, currently Executive Vice President-Corporate Planning and International, will be assigned the responsibility for the Marine Divisions with the title Executive Vice President-Marine, Business Systems and Corporate Planning.

Mr. Ayers reported that the Compensation Committee recommends that Mr. Sawyer's annual salary be fixed at $210,000. The Compensation Committee also awarded to him a five year employment option for 50,000 shares of General Dynamics Common Stock at a price equal to the fair market value of the stock on the first date of his employment by the Corporation.

After discussion, on motion, seconded and unanimously carried, it was

No. 83-59 RESOLVED, that George A. Sawyer is elected as Executive Vice President-Land Systems and International of the Corporation, effective on the commencement of his employment by the Corporation on the condition that the General Counsel of the Navy renders an opinion that Mr. Sawyer's employment by the Corporation does not violate any law, rule or regulation of the U.S. Government or the Department of the Navy pertaining to conflicts-of-interest or ethical matters and that the Department of Defense is satisfied that there is no legal or ethical problem involved; and further

No. 83-60 RESOLVED, that the annual salary rate of George A. Sawyer is fixed at $210,000, effective upon his employment by the Corporation.

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20350

7 June 1983

Mr. David S. Lewis
Chairman of the Board
General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 63105

Dear Mr. Lewis:

Attached please find a memorandum for the Assistant Secretary of the Navy (Shipbuilding and Logistics), The Honorable George A. Sawyer, from The Honorable Hugh O'Neill, Acting General Counsel, Department of the Navy, regarding employment between Mr. Sawyer and General Dynamics Corporation.

I believe the memorandum is self-explanatory and the facts and circumstances surrounding Mr. Sawyer's resignation to accept employment with General Dynamics Corporation have been thoroughly examined. The essential information with regard to General Counsel's position in this matter is outlined in paragraph 2.

Thank you very much for your attention to this matter.

Very respectfully,

Tom
T. J. MILLER

RECEIVED
JUN 10 198
Office of
The Chairman

GENERAL COUNSEL OF THE NAVY
WASHINGTON, D.C. [illegible]

3 June 1983

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

Subj: Relations regarding employment between Mr. George A. Sawyer and General Dynamics Corporation

1. At your request, I have examined the facts and circumstances surrounding your request to resign your position in order to accept employment with General Dynamics Corporation. You and your staff have provided the following information:

(a) You last participated in a matter concerning General Dynamics on May 5, 1983, when you executed a Class Determinations and Findings under the authority of 10 U.S.C. 2304(a)(16) authorizing the negotiation of contracts for SSN 688 Class submarines with Electric Boat Division of General Dynamics Corporation and Newport News Shipbuilding and Dry Dock Company. These are the only two builders of that class submarine.

(b) Prior to May 20, 1983, neither you nor anyone on your behalf had negotiated with any defense industry representatives regarding your future employment.

(c) On or about 20 May, 1983, the possibility was raised by a General Dynamics' representative of a position becoming available with that corporation in land systems and international operations management. On the same date, you decided that you would like to explore what that position entailed. Therefore, by memorandum of 20 May, 1983, you informed the Secretary of the Navy that you were considering employment with private industry in the area of your expertise and requested that you be relieved of all of your responsibilities relating to Navy shipbuilding. The Secretary of the Navy concurred in your request.

(d) By memorandum to the Secretary of the Navy and others dated 26 May, 1983, as an amplification of your memorandum of 20 May, 1983, you specifically disqualified yourself from participating in matters involving General Dynamics Corporation or any of its subsidiaries or affiliates.

(e) On May 27, 1983, you requested greater detail from General Dynamics regarding the previously referred to management position in land systems and international operations management. On the same day, General Dynamics provided the requested information and made a verbal offer of employment to you for consideration. Over the Memorial Day weekend, you gave extensive consideration to the General Dynamics offer and decided to accept it contingent upon your resignation being accepted by the President.

2. Based on the foregoing information, it is my opinion that you have complied with the conflict of interest laws, mainly 18 U.S.C. 208, and the Standards of Conduct in your exploration and negotiation for employment with General Dynamics Corporation. It is further my opinion that having disqualified yourself from participating in matters involving General Dynamics Corporation, you may lawfully accept employment to commence after your resignation is effective.

3. I note that you have been advised orally and in writing by this Office with respect to the post-employment restrictions on Senior employees set forth in 18 U.S.C. 207. These restrictions will govern your future involvement in both U.S. Navy and Marine Corps programs.

Hugh O'Neill

Hugh O'Neill
Acting General Counsel

General Counsel

JUN - 9 1983

Office

307 Yoakum Parkway, APT 1710
Alexandria, Virginia 22304
June 7, 1983

Mr. David S. Lewis
Chairman of the Board
 and Chief Executive Officer
General Dynamics
Pierre Laclede
St. Louis, Missouri 63105

Dear David:

I am in receipt of your recent letter and, as confirmed in our telephone call of Monday last, am most pleased to accept your most generous offer of employment with General Dynamics.

As requested, attached you will find a memorandum from the Acting General Counsel of the Navy regarding ethics considerations of my pending employment with the Company. Please note that the emphasis on the word "negotiations" attest to the fact that neither party had discussed specific terms and conditions pertinent to an offer of employment prior to May 26, 1983.

In summary, it is the opinion of Counsel that there are no outstanding issues relating to a perceived or possible conflict of interest involving my pending employment with GD in the position described in your offer.

Thank you again for your strong support and personal confidence in me. As indicated, I fully intend to give you and GD "110%" and I look forward to seeing you on or about 1 July when I expect to report for work in St. Louis.

Sincerely,

George

GEORGE A. SAWYER

RECEIVED

JUN 8 1983

Office Of
The Chairman

ATTACHMENT 4(b)

3. Election of New Directors

Mr. Kapnick, Chairman of the Nominating Committee, reported that the Committee met on 4 August 1983 and voted to recommend that the number of Directors be increased from 15 to 17 and that Donald P. Kelly and George A. Sawyer be elected as Directors to fill the places created thereby. Mr. Henry Crown, who was not present at the meeting of the Committee, had asked to be recorded as voting in favor of both candidates.

Mr. Kapnick then submitted a written report of the meeting, which was ordered filed with the records of the Corporation.

In the course of the discussion on the qualifications of Messrs. Kelly and Sawyer, Mr. Lewis reported that the Office of the General Counsel of the Navy had furnished the Corporation with an opinion that the employment of

Mr. Sawyer, former Assistant Secretary of the Navy, by the Corporation would not violate any applicable law, rule or regulation covering conflicts of interest.

After discussion, on motion, seconded and unanimously carried, it was

No. 83-76 RESOLVED, that pursuant to Section 2 of Article III of the By-Laws of the Corporation, the number of Directors is increased from 15 to 17; and further

No. 83-77 RESOLVED, that Donald P. Kelly and George A. Sawyer are elected as Directors of the Corporation, effective immediately; and further

No. 83-78 RESOLVED, that the written report of Harvey Kapnick, Chairman of the Nominating Committee of the Corporation, of the meeting of the Committee held on 4 August 1983 was accepted and approved.

At this point, Mr. Sawyer was welcomed into the meeting.

THE NEW YORK TIMES, FRIDAY, AUGUST 10, 1984

ATTACHMENT 5

Pentagon

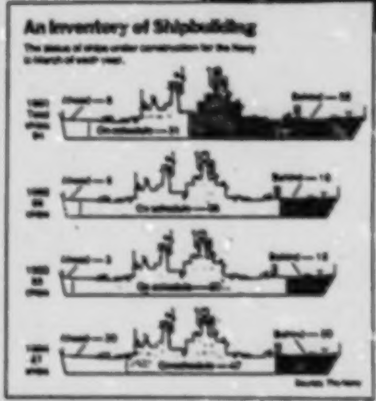
Navy Gains on Ship Cost And Delivery Problems

By RICHARD HALLORAN

[illegible]

WASHINGTON, Aug. 9 — [illegible]

The Bath Iron Works in Maine in [illegible]. This week the Navy will commission the Robert G. Bradley, a warship built there and delivered ahead of schedule and under cost.



An Inventory of Shipbuilding

The status of ships under construction for the Navy in March of each year.

Source: The Navy

Ships to Be Delivered

[illegible]

Few Complaints Today

[illegible]

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ATTACHMENT 6

POINT PAPER

EMPLOYMENT RESTRICTIONS ON FORMER GOVERNMENT EMPLOYEES

I. Preface. No statutes or regulations preclude employment with a domestic entity, even though it does business with the Federal government. Restrictions concern specific activity relating to such employment.

II. Statutory proscriptions applicable to all former government employees.

a. Lifetime restriction -- Section 207(a) of Title 18 U.S. Code permanently prohibits former Government employees from acting as agent or attorney for or otherwise representing others in appearances before the Government, or communicating with the Government on another's behalf with intent to influence, concerning a particular matter involving specific parties, and in which the former employee participated personally and substantially while with the Government.

b. Two-year restriction -- Section 207(b)(i) of Title 18 U.S. Code imposes the same restriction on former Government employees for two years after leaving their employment, concerning particular matters during the final year of that employment which were actually pending under their official responsibility, even though the employee was not personally and substantially involved.

III. Additional proscriptions applicable to former senior employees.

a. The following additional restrictions apply only to senior employees, which include those in Levels I through V of the Executive Schedule, and those designated by the Office of Government Ethics either within the Senior Executive Service or at a rate of pay greater than GS-16 (See 5 CFR 737.33, wherein Principal Deputy Assistant Secretaries of the Navy are so designated.)

b. Two-year restriction -- Section 207(b)(ii) of Title 18 U.S. Code prohibits former senior Government employees for two years after leaving, from even being present at an appearance before the Government to assist in representing another on a particular matter involving specific parties where the employee participated personally and substantially while with the Government

c. One-year restriction -- Section 207(c) of Title 18 U.S. Code prohibits former senior Government employees for one year after leaving from acting as agent or attorney for or otherwise representing anyone (including themselves) in appearances before the Navy Department, or with intent to influence, communicating with the Navy Department, in any particular matter pending before or of substantial interest to the Navy, regardless whether or not the employee was involved therewith while in the Government.

IV. Exceptions. Certain exceptions are permitted to portions of 18 U.S. Code 207, relating to scientific and technical information, the national interest, acting in behalf of state and local governments or institutions of higher learning or medical organizations, appearing as a witness, or on personal matters. See 18 U.S. Code 207 (d), (f), (h), (i).

V. Penalties for violating 18 U.S. Code 207.

a. Criminal sanctions -- Up to $10,000 fine and 2 years imprisonment

b. Administrative sanctions -- The Navy Department may prohibit the violator from appearing before or communicating with the Navy on pending matters for up to 5 years.

GENERAL DYNAMICS
Corporate Headquarters

Date: 17 August, 1984

To: File
From: **George Sawyer**

Subj: Some Specific Facts Involving My Decisions and Actions While
Asst. Sec Nav (S&L) Regarding General Dynamics
Att: 1- OGC Navy Memorandum of 3 June, 1983
2- White House Letter of 20 June, 1983
3- DS Lewis Note of 27 June, 1983
4- Genl Dynamics Board Minutes of 2 June and 4 August, 1983
5- NY Times Article of 10 August, 1984
6- Navy OGC Point Paper on Post Employment Restrictions
7- Navy JAG Interpretation of Post Employment Restrictions

1- Facts Of Employment with GD, Notification to the US Navy and Clearance Before The Fact By Navy General Counsel:

a) Specific dates and actions spelled out clearly in Attachment 1.

b) Note date of Att. 1; then note dates of Attachments 2 & 3. Specifically, formal notification given by me on 20 May to SecNav, formal disqualification on 26 May, clearance by Navy Genl Counsel on 3 June, resignation effective 25 June, hired by GD effective 28 June, 1983. In addition, prior to any commitment on either side, GD Chairman, David Lewis, personally reviewed the propriety of my potential hire with SecNav and the the GD Board of Directors carefully reviewed the conditions relating to my employment, insisting on a favorable Navy General Counsel opinion before rendering final consent to my employment (Att. 4). Moreover, during the entire month of May, 1983 the only official matter involving GD to come before me was a determination and finding authorizing competitive negotiation for 688 class SSN's with the only two builders remotely qualified to build these ships- a decision which could hardly raise any spectre of conflict-of-interest.

2- Some Controversial Decisions Involving General Dynamics During My Tenure as ASN (S&L):

Although the entire allegation that I "feathered my nest" while ASN by "channeling billions of dollars to GD" is specious based both on the basic limitations imposed on an Asst Sec through the very generalized nature of the D&F process (explained well by the Navy in their response to the "Battleship" issue raised by the NY Times and Joint Maritime Congress last December), and on the simple fact that I did not participate directly with GD on any specific contractual matter (which can be corroborated by RADM Sansone, Commodore Platt and Captain Hautenstein - all key Navy contractual officials in NavSea, NavMat and ASN during my tenure and today), it should be helpful to relate a few selected instances of policy matters which came to my attention and which I approved. The majority of these decisions, in fact, could be interpreted as highly prejudicial to the business interests of Genl. Dynamics, although hardly for the United States Navy. Specific dates and background documentation on these decisions enumerated on Page 2 should exist in Navy files.

3-Removal of the "Insurance Claim" and Institution of the "50/50" Share Line:

Attachment 5 is a good (and for me personally, an ironic) status summary of the US Navy Shipbuilding Program under the current Administration. Mentioned prominently as one cause for the vast improvement in recent years is the policy that I initiated at the beginning of my tenure to institute a fair and totally equitable sharing between the Govt and contractor of underruns or overruns beyond the target price, and on "mature" ship construction projects (such as 688 SSNs, Aegis Cruisers, LSDs etc) a rather sharp 50/50 share line. This one act, in my opinion, has been the principal "carrot or stick" incentive to induce the contractor to perform well on his contract. Some adversaries have argued that this only serves to provide the contractors with bloated profits-however, most, even somewhat negatively biased, observers such as the NY Times and the Aug 8, 1983 Business Week article on this subject agree with the Navy position. Political antagonists have also attempted to use this generalized policy, which the Navy applied to all mature shipbuilding programs, as the mechanism I personally used to funnel more profit to EB, either to feather my nest or to induce GD to drop its outrageous "insurance claim", which was another major issue facing Navy Shipbuilding at the start of the Reagan Administration.

Indeed, the successful resolution of the insurance issue was, in my opinion, the second major factor in establishing a more effective working relationship between the Navy and its major contractors over the past three plus years. (The third was the famous McDonnell Douglas dispute; the fourth and last, was the Navy's very early major move to stimulate more competition in its procurement-which has been eminently successful in the case of Naval Shipbuilding particularly.) The insurance issue was in fact resolved simply by informing GD (and other potentially recalcitrant contractors when the Navy subsequently "ratcheted" more restrictive insurance language into its major contracts) that there would be complete hell to pay if they persisted. The Navy made it clear that if GD persisted in this, the Navy would immediately obtain approval to re-open a Naval Shipyard for SSN construction and would counter-sue GD for consequential damages. The Navy had also obtained preliminary approval to defend and counter sue using outside counsel for assistance. One can argue about the ultimate efficacy of all this, and many have, but the Navy meant business. Indeed, I would have been perfectly willing to "live or die" professionally on this one issue- that's how important I deemed it to be in the interest of the United States (and the taxpayer).

4- Tomahawk Second Source:

During my tenure the Navy recommended and I supported vigorously the controversial decision to second source the Tomahawk all-up round. One can argue the merits of this complex decision after the fact, and we seem to in every Quarterly Division Review, but we can all agree that whatever its merit for the Navy, it was a highly negative decision for Genl Dynamics.

5- Armored Box Launcher Break-Out:

An early, and highly successful break-out to competition, project were the Tomahawk Armored Box Launching Systems. This was initiated largely as a matter of necessity in order to meet the very stringent schedule requirements of the New Jersey reactivation and it worked very well. Not only was schedule maintained, but the ultimate price of the systems was about half of the forecast under GD (and under a fixed price vs the cost plus arrangement of the GD contract). Although less controversial, this decision was hardly helpful to GD, as over thirty box launching sytems have been built or are currently under construction. As the Congress and SecNav had specifically designated me as the "responsible executive" to get BB62 out on schedule-on budget, I strongly supported this break-out initiative.

6- Aegis/Standard Missile Second Source Evaluation:

A memorandum, (or D&F - I can't recall which) signed by me rather late in my tenure directed the Navy to investigate the feasibility of introducing more competition in the entire Aegis Combat System's procurement, including the missile. This issue, which is still evolving, was mainly oriented by me at the Aegis radar and shipboard weapon's system, but the missile itself was included as an afterthought by Pyatt and supported by me at the time. Again, regardless of its merit pro or con, the decision was hardly supportive of my "nest feathering" or "favor currying" with Genl. Dynamics.

7- The TAK(X)- Now MPS Program:

One of the major programs initiated by the Navy Shipbuilding and Logistics Office was the very large and innovative 13 ship build and charter program for the Maritime Prepositioning Ships. This program originated with a concept which I had developed before joining the Administration while still with my previous firm. For this reason, when the program build and charter concept was approved by the Secretary of the Navy in late '81 and endorsed by SecDef and the four oversight Congressional Committees in '82, I excused myself in writing from the actual selection process and subsequent negotiation of specific contractor/operators for the service. In fact, the selection process was carried out and completed about a year before I decided to leave the Administration. My only concern at the time was the possible perception of a conflict of interest with regard to my prior employer - and hadn't a scintilla of consideration for GD with whom I had had no prior or, at the time, intended relationship whatsoever. My Principal Deputy at the time, Mr. Everett Pyatt, was designated as the principal Navy executive in the TAK(X) selection and decision process. My sole involvement in the program from a negotiating standpoint came only after the contracts with GD had been finalized, when I suggested to Mr. Pyatt that the Navy should attempt to realize the same operating cost savings on the TAK(X) Program as it had realized in a then-current competitive charter negotiation on several MSC Oilers, where several of the more enlightened Maritime unions had offered major concessions in the way of vacation and other benefit work policies. This approach had also been strongly supported by MSC, and it required additional (and successful) renegotiations with at least two of the three contractor/operator consortia involved. Significant additional labor cost savings were thereby realized by the Navy- again, hardly evidence of a personal conflict of interest on behalf of GD.

However, this renegotiation and the entire competitive process of selection, where labor costs had become a major economic factor in the decision, has continued to enrage a few of the more powerful and entrenched Maritime unions, specifically The Marine Engineers Beneficial Association, District 1. It is this very powerful and politically active group which, by written admission of the NY Times and other sources, has been the principal antagonist to the US Navy generally and myself personally. So be it; some of these powerful labor union interests who are not used to competing with other smaller but effective unions for work have every reason to be angry with George Sawyer and the US Navy, who made competition for labor contracts a matter of policy; but, that does not necessarily make George Sawyer guilty of impropriety or, worse, improbity. And, when the facts are known, there should be no reason for less interested but fair minded observers to believe that I am.

8- Strict Observation Of Statutory Post-Government Employment Restrictions:

Attachment 6 summarizes the current statutory restrictions governing post-government service by former Govt employees. Since, for reasons yet unknown, the U.P. News article describing the Proxmire letter to the Navy on George Sawyer referenced one of these restrictions (the two year restriction), it is possible that someone(s) are alleging that in some manner I may be violating this statute in performance of my current duties. Again, the facts are that the conditions and purview of my GD employment were clearly discussed with the Navy and its General Counsel before I was employed by GD. In addition, I have rigorously and scrupulously avoided "business" contact of any type with former associates in the Navy over the past year. Attachment 7, which amplifies on the various General Counsel interpretations, was prepared by a highly senior member of the Navy JAG and illustrates well how far afield my current responsibilities are as GD's Executive Sponsor of GDLS, GDIC and GDSC from what in fact would be permissible under the statute.

Mr. **Sikorski**. Thank you.

In April you made a number of background checks on Mr. Sawyer, is that correct?

Mr. **Lewis**. That is correct.

Mr. **Sikorski**. And also apparently in April you called Mr. Sawyer and told him that the General Dynamics people enjoyed meeting with him and liked him, and you wanted him to return and meet with others at the company, particularly the directors, Lester Crown, Henry Crown, Bert Jenner, and others; is that correct?

Mr. **Lewis**. I don't remember that call. I remember a call on the 3rd of May, if I am not mistaken. The call on the 3rd of May was the time that we had generated an opportunity that developed a job that we thought he might be interested in that would have no conflict of interest, in our view. I believe that call was the 3d of May.

Mr. **Sikorski**. Well in April you had a conversation with Mr. Bechtel and Mr. Goodwin?

Mr. **Lewis**. Yes.

Mr. **Sikorski**. And you did a memo with reference checks regarding George A. Sawyer; is that correct, dated April 28?

Mr. **Lewis**. That memo, Mr. Sikorski, was written as a record of the phone calls which I think you will find in another piece of paper with my notes on it. It was the 22d or something?

Mr. **Sikorski**. Yes; the 21st of April.

Mr. **Lewis**. The 21st; yes.

Mr. **Sikorski**. And then there is a notation you made on May 3, 1983, in which you say, "Discussed idea of GDLS." I presume that is General Dynamics Land Systems, "and international and GDS," presumably General Dynamics Services, "with eye to marine maybe down the road. Point 2. If he is interested he will talk to HC, LC and others."

That is Henry Crown and Lester Crown?

Mr. **Lewis**. Yes; that's the call I'm referring to; yes.

Mr. **Sikorski**. And again according to your handwritten notes, May 13th through the 18th you polled the directors for the impression of Sawyer "generally positive but again they raised the conflict problem," is that correct?

Mr. **Lewis**. Yes; there were several separate—those were all telephone conversations.

Mr. **Sikorski**. I think he met, according to your notes, May 13, with Nate Cummings, who is a member of your board; is that correct?

Mr. **Lewis**. Yes. Those dates are the dates of my telephone calls, and they are not exactly the same as the interviews.

Mr. **Sikorski**. May 17 of your notes "one and a half hours was spent with Tom Ayers. May 17 lunch with Milt Falkoff, May 18, Lester Crown"?

Mr. **Lewis**. That was in Washington. Others were in——

Mr. **Sikorski**. The others were where?

Mr. **Lewis** [continuing]. Cummings in New York, the others I believe were in Chicago.

Mr. **Sikorski**. He met with Bert Jenner. Would that be in Chicago on May 18?

Mr. **Lewis**. I believe so, yes.

Mr. **Sikorski**. And he met with Henry Crown May 24. Would that be in Chicago as well?

Mr. **Lewis**. I think so. I can't remember.

Mr. **Sikorski**. Again those dates are off your notes.

Mr. **Lewis**. Of my telephone calls, yes.

Mr. **Sikorski**. May 25, Elliot Stein.

Mr. **Dingell**. The Chair observes the time of the gentleman has expired.

The Chair will recognize himself and yield to the gentlemen.

Mr. **Sikorski**. I thank you and appreciate it, Mr. Chairman.

Who paid for these trips by Mr. Sawyer to have these various meetings?

Mr. **Lewis**. As I understand it, the company supplied the airline tickets for Mr. Sawyer.

Mr. **Sikorski**. And the conversation he had with Mr. Ayers or as reflected in your notes, there was concern about flack from the Navy. I am sorry, "worried about flack from the press." And the statement you wrote, "We can survive the flack, get an agreement with Navy Secretary." Do you remember those?

Mr. **Lewis**. I think the concern of Mr. Ayers was assuming there was no conflict we are still going to have flack from the press. That is my memory of what those notes were.

Mr. **Sikorski**. Well, the minutes of the General Dynamics board meeting of June 2, 1983, have Mr. Lewis reporting that Mr. Sawyer accepted employment on May 31, 1983 and states, "The arrangement is subject to obtaining an opinion from the general counsel of the Navy that Mr. Sawyers' employment by the corporation would not violate any applicable law, rule or regulation covering conflict of interest."

On June 7, Mr. Sawyer confirmed his acceptance in writing, and forwarded the June 3, 1983, Navy general counsel opinion that Sawyer had no conflict of interest in the opinion of the General Counsel.

We have that letter, and the cover letter as well as the memo from the Assistant Secretary of the Navy. According to the memo from the acting general counsel, Hugh O'Neall, his opinion was based on representations by Mr. Sawyer that, (A), Mr. Sawyer last participated in a matter concerning General Dynamics on May 5, 1983, (B), prior to May 20, 1983, he had not negotiated with any defense industry representatives regarding future employment.

"(C) On May 20, 1983, General Dynamics raised the possibility of a position becoming available and he," meaning Mr. Sawyer, "informed the Secretary of the Navy. (D) On May 26, 1983, specifically disqualified himself from matters involving General Dynamics."

Mr. Lewis, my question is based on the chronology that we have just gone through. You would have known that Mr. Sawyers' conflict of interest opinion that he forwarded to you, a condition upon which his employment was based, was itself based on a false statement?

Mr. **Lewis**. If we are going to talk about chronology, you left out two very important dates there.

Mr. **Sikorski**. Why don't you supply them for us?

Mr. **Lewis**. You have them in front of you. One is I believe the 25th of May, which describes the offer and also would answer the question about what we paid Mr. Sawyer at the outset. I had a meeting, I believe it was the 26th, I had a meeting on the 25th with Secretary Thayer and Secretary Lehman, in which I described this job and got their judgment as to whether there was a conflict, and also to determine what their recommendation would be, whether he would be suitable for that job or not.

Mr. Thayer saw no conflict, thought that Sawyer would do well in that job, but he pointed out that is an issue for Lehman. I saw Lehman later the same day. Lehman was extremely positive about Sawyer's ability, and thought he would do an outstanding job, and said something to the effect that, "Well," he had stated he already knew, had been advised by Sawyer, that we had had preliminary discussions, and he said, "I see no conflict of interest. However, I am going to get Navy counsel on this immediately if you want to pursue it."

And I said I do. So the next day——

Mr. **Sikorski**. Mr. Lewis, let me direct your attention just to the question.

Mr. **Lewis**. The question has to be accurate. I could not negotiate until that 26 meeting was held.

Mr. **Sikorski**. Well, Mr. Lewis, the statute we are talking about has nothing to do with your very narrow and self-serving definition of what negotiation means, but I am asking you to respond to the question. I asked for the Assistant Secretary of the Navy by Hugh O'Neal, acting general counsel, on the issue of conflict of interest. In that memo his decision that there was no conflict, a condition of employment for Sawyer, was based on three pieces of information that you knew at the time you received this were inaccurate.

One is that prior to May 20, 1983, neither Mr. Sawyer nor anyone on his behalf had negotiated with any defense industry representatives regarding his future employment. We have the whole chronology of just such negotiations.

Mr. **Lewis**. I don't agree with that.

Mr. **Sikorski**. Well, let's go on to the next point. It was conditioned on the fact "that on or about May 20, 1983, the possibility was raised by General Dynamics representative of a position becoming available with that corporation in land systems in international operations management."

Mr. **Lewis**. That possibility——

Mr. **Sikorski**. I can point to at least 3 occasions in your handwritten notes where you specifically, specifically mentioned that job, and specifically talked to Mr. Sawyer about it, and the final point of information that is inaccurate, upon which this opinion was based, is that May 20, 1983, "Sawyer informed the Secretary of Navy that he was considering employment with private industry."

You told us in the first statement in response to my question that he told you he was leaving back in March.

Mr. **Lewis** [continuing]. I told you he had orally advised—he told me that he had orally advised Secretary Lehman, and I thought it was Weinberger, apparently it was Thayer, that he had decided to leave, and that information came during a trip to the Far East.

Mr. Sikorski. Let me just ask one final question, Mr. Chairman, and clean this up.

It's clear the chronology doesn't support the dates that were put into this memo that gave him this supposed clearance on conflict of interest, but beyond that, there is a financial disclosure report signed for termination purposes, signed by Mr. Sawyer, which requires that he "certify that the statements I have made on this form in all task schedules are true, complete and correct to the best of my knowledge and belief."

In that there is a provision Roman I, lodging, transportation, food and entertainment, "list each source totalling $250 or more in value."

He puts none. He puts none. Obviously the flight to St. Louis at least once and to Chicago at least once and to New York at least once makes that statement false.

Finally, do you know a Mr. T.J. Miller?

Mr. Lewis. I know him, yes.

Mr. Sikorski. Well, he sent you from the Navy a letter with this memo on the clearing on the conflict of interest. Do you know who he is working for at this point?

Mr. Lewis. He is working for Mr. George Psihas.

Mr. Sikorski. Mr. George Sawyer and General Dynamics?

Mr. Lewis. Mr. George Psihas.

Mr. Sikorski. Who?

Mr. Lewis. Mr. George Psihas.

Mr. Sikorski. Mr. George Sawyer.

Mr. Lewis. No, not Sawyer.

Mr. Sikorski. It is a different one from the person we have been talking about?

Mr. Lewis. Yes.

Mr. Sikorski. And do you know a Mr. Martin Soydam?

Mr. Lewis. Pardon me?

Mr. Sikorski. Who does Mr. Psihas report to?

Mr. Lewis. George Psihas reports to George Sawyer.

Mr. Sikorski. So he does work for Mr. Sawyer. Do you know a Mr. Martin Soydam?

Mr. Lewis. Soydam?

Mr. Sikorski. Yes.

Mr. Lewis. Yes; I have met him.

Mr. Sikorski. Does he work for you too?

Mr. Lewis. He works at Land Systems, I believe.

Mr. Sikorski. For Mr. Sawyer. Did he used to work at the Navy for Mr. Sawyer?

Mr. Lewis. Not to my knowledge. I don't know.

Mr. Sikorski. It is a happy time down there, but there are some serious problems, and I haven't gotten into others conflict of——

Mr. Lewis. I thought Mr. Soydam is working at Land Systems.

Mr. Sikorski. I thank the chairman for his indulgence, and just conclude that there are some serious violations of that section 207. that section 207.

We will get back to the section 208 violation next time.

Mr. Dingell. The time of the gentleman has expired.

The Chair recognizes the gentleman from Florida, Mr. Bilirakis.

Mr. Bilirakis. Thank you, Mr. Chairman.

Mr. Lewis, the Chairman in his opening remarks referred to the suspension by Secretary Weinberger of the overhead payments for 30 days while announcing an investigation of the General Dynamics overhead accounts.

Also, the Chairman referred to the fact that not a single investigator has been dispatched to the General Dynamics division, and no one has been dispatched to General Dynamics headquarters and our latest information is that one lone DCAA auditor has investigated three divisions.

In your opinion, do you think that the investigation by Secretary Weinberger is adequate, considering that we are two-thirds of the way down through those 30 days?

Mr. LEWIS. I would like for Mr. MacDonald, if that is appropriate, to give you the facts on that case instead of what was—as we understand it.

Mr. BILIRAKIS. OK.

Mr. MACDONALD. I don't know the actual quantity, but at every division where defense business is done, and St. Louis, we have got auditors coming out of our ears. They are DCAA auditors. They are permanently assigned there. I don't understand why there is only one auditor that had never been to the corporate headquarters.

Mr. BILIRAKIS. Are these auditors that have been sent there by the Secretary's office a result of its investigation that he asked for, that he indicated he was going to conduct?

Mr. MACDONALD. No. These are permanent ones that are there.

Mr. BILIRAKIS. These are permanent ones?

Mr. MACDONALD. Yes; they are.

Mr. BILIRAKIS. But no additional ones?

Mr. MACDONALD. I don't know.

Mr. BILIRAKIS. The permanent ones have been there in other words to basically do this same sort of job all along as a routine, are they not?

Mr. MACDONALD. That is correct.

Mr. BILIRAKIS. DCAA auditors?

Mr. MACDONALD. Yes.

Mr. BILIRAKIS. So what are they doing differently now than they should have done prior to when this incorrect overhead reimbursement, or apparently incorrect overhead reimbursement matter arose?

Mr. MACDONALD. I wasn't aware that they had questioned the job that had been done by the DCAA. We, Mr. Lewis, touched on the review that we were making of the $170 million that had been questioned, and I didn't know there was any criticism of what they had done by the Defense Department.

Mr. BILIRAKIS. Do you think that when Mr. Weinberger made the comment about announcing the investigation of the overhead accounts that he was intending to have basically the same DCAA auditors that had been there over a long period of time and had not picked up anything out of the ordinary, that he intended that those would be the people to conduct this investigation?

Mr. MACDONALD. I don't know what the Secretary's intent was, but I certainly think that they have done a lot out of the ordinary in that they questioned $170 million. I think that was pretty well covered by Mr. Lewis's opening statement on what we had done in regard to those.

I plan to get into that, but I was just wondering about these DCAA auditors. I mean, you know, it is my opinion that their function on a routine basis is to review all of these accounts and that sort of thing, to make sure that these problems don't occur. I guess the question that I raised through the chairman and every one else is, I am not sure—oh, I don't know, I can't really come up with an illustration of what I am trying to say here, but basically you are not going to have—it is almost like lawyers judging another lawyer, if you will, or doctors judging another doctor, if you will.

You have the auditors in effect judging themselves because their job was to have picked up these problems in the first place, and they failed to do so. Now we are telling——

Mr. LEWIS. Sir, if I might correct, I don't think that is fair to them. They have picked up an enormous inventory of problems which I believe are the ones that were reviewed among those that were reviewed at our last meeting, the horror stories that were horror stories. I don't think the issue is with DCAA.

I think they have laid out their squawks or their questions. Some of them they feel strongly about, some there are questions they don't understand, and that is normal, and they bring that information to the attention of the contract officer, ACO, and the company, and negotiations go from there. I think the charge that was given from what I understand was to find out if the company is doing anything about this. They have stated their position in opposition to our 60 million—opposition to our $170 million worth of proposals, so I don't think—it's a question of are we going to resolve these issues.

Mr. BILIRAKIS. But apparently based on your testimony that your office, your people, are spending hours and hours reviewing these vouchers line item by line item, and that sort of thing.

Mr. LEWIS. Yes.

Mr. BILIRAKIS. What is the Government doing toward that end?

Mr. LEWIS. What they do, sir—first, we did two things. We took their 4 years, I believe, of reports and we went through those separately, and I mentioned that. That's where we went through them and we think we leaned over backwards to knock $23 million out of our proposal.

Now, when we give all these thousands of vouchers to the DCAA to evaluate, they are put in as valid appropriate charges. We submit them as appropriate charges. We are now going back and reviewing those, and a lot we will send back into them and they will be marked we do not want reimbursement for this one and this one, and these other three are OK.

In other words, we are screening with a much more intensive screen than we did before, under this current environment and under the directives of Secretary Weinberger. So they are waiting for us to come in with the changed list of their evaluations, and this is ongoing. It's not they stand back and wait for us to work. It's one box at a time, as I understand it.

Mr. BILIRAKIS. But it is the screening I am concerned about—an adequate check and balance here. Over a period of time have many of your overhead charges for reimbursement been disallowed by the Government?

Mr. Lewis. No.

Mr. Bilirakis. No. Why?

Mr. Lewis. As I understand the procedure, the DCAA gets this mob of paper, masses of paper. They review them. They have lots of questions. They turn their comments, criticims, questions, and opinions to the contracting officer. He is the one that negotiates the final overhead agreement with our negotiators.

Of the questioned items, which in this case would be the equivalent of the $63 million over the 4-year period, I am told that when the final settlement, the number, the percentage of those questioned items that are accepted by the contracting officer through the negotiation is small, and certainly nothing like the 33 percent we have yielded here.

Mr. Bilirakis. All right you have yielded 33 percent apparently, but another $40 million is at issue here. Is this basically a situation where General Dynamics is unilaterally going to present to the DCAA vouchers which might be questioned?

Mr. Lewis. No. We are going to submit a proposal based—several. We are sending this flood of new paper back, but in addition to that, which means the 23 will go up, we are telling the DCAA, the contracting officer, we agree with these particular items which make up part of the 63 million. We will agree to yield those, and that is where the 23 million come from, and it is really two separate items.

One is an analysis of the questions and comments of the DCAA, and the other one is to go even deeper than that and see is there something else in there in detail that cannot be seen by the broad statement of the DCAA auditor.

They are advisory people, and they are pros, of course, and they will see the same voucher that they saw before; we don't remove anything from the file, but we draw a line through it or do some symbol saying we don't want to be paid for this.

Mr. Bilirakis. I would just submit, if I understand the situation correctly—and maybe I don't, since we are just now getting involved in this because our side of the aisle had not been assigned to the subcommittees until last week—but you know, it's even unfair, if I may use the term to General Dynamics, to have applied for reimbursement of certain overhead items over a long period of time, thinking that since they hadn't been questioned, they must be legitimate.

Mr. Lewis. They were legitimate and we still feel that way.

Mr. Bilirakis. You still feel that way?

Mr. Lewis. We feel that some of that $23 million——

Mr. Bilirakis. But that is my concern. Is the Government and are the appropriate Government agencies doing their job to have even allowed it to reach this particular point, because two wrongs do not make a right.

Mr. Lewis [continuing]. I think—I don't know, I would not say that. I think that they relied on documentation that we presented which was probably inadequate, and which was pointed out.

Mr. Bilirakis. Inadequate?

Mr. Lewis. Inadequate.

Mr. **Bilirakis.** Not inaccurate but inadequate?

Mr. **Lewis.** Inadequate, inadequate meaning that if it had been more adequate, the voucher, all expenses would probably not have been submitted in the first place.

I think that is the essence of the point, and I will say this. It was said in different words and I prefer these words, I think by, well, maybe Mr. Eckart, I don't know, but that perhaps we leaned over backward on every item to justify that it was allowed. I think on this round we are leaning over backward to have essentially ultimate approval that it's allowed, the opinion that it's allowed, not approval, but opinion.

Mr. **Bilirakis.** Just one final question quickly, Mr. Chairman, if I may.

Do you expect the suspended overhead payments to start up again in a few days, because of the termination of the 30 days?

Mr. **Lewis.** I have no idea. It's my understanding that Secretary Taft has charged the audit system to come back with opinions on what we are doing, how we are doing.

Mr. **MacDonald.** I want to go back to that one additional DCAA man. When we started this review, after the last hearing meeting, we tried to get ahold of all the vouchers that were in the hands of the auditor, and had a very difficult time. They stopped us cold on that. They have got some activity going on through it, and these are on things that they have already issued all the reports on.

Mr. **Bilirakis.** Thank you, Mr. Chairman.

Mr. **Lewis.** I don't know how we came out on that.

Mr. **Bilirakis.** I am not sure either.

Mr. **Dingell.** The Chair recognizes the gentlemen from North Carolina, Mr. Broyhill.

Mr. **Broyhill.** I yield to the gentleman from Florida.

Mr. **Bilirakis.** Thank you, Mr. Broyhill.

Have you changed or are you contemplating changing any of your procedures to keep this sort of thing from——

Mr. **Lewis.** Absolutely.

Mr. **Bilirakis** [continuing]. From continuing, from happening again?

Mr. **Lewis.** Absolutely and completely, yes, sir, absolutely and completely. We took to heart these horror stories, and have not tried to brush them under the rug.

Mr. **Bilirakis.** Do you agree——

Mr. **Lewis.** We have 700 people cleaning them up for the past.

Mr. **Bilirakis** [continuing]. Do you agree, sir, that they are horror stories?

Mr. **Lewis.** I agree that every one that I heard here was a horror story except, well, maybe one or two, but there were some pretty horrible stories and they should not have been submitted, and I think we said that at the time.

Mr. **Bilirakis.** Do you think there may be some in there that we and you, you individually, do not know about?

Mr. **Lewis.** I am confident that this system, that 700 people are working on right now, is going to turn up a number of others that will be questionable and will be thrown out.

Mr. **Shelby.** I wonder if the gentleman from Florida will yield.

Mr. Lewis, you called them horror stories and you are trying to deal with them now but weren't you and some of your officials under you the author of these horror stories, if we want to call them that, using your term?

Mr. LEWIS. I think inadvertenly we were and I referred to one case. I think I made the statement about the trip to Hawaii, the $2,800 trip to Hawaii. That should never have been charged, and I think this points up what we are trying to do.

When I turn in an expense report, there may be 10 items on there, all of which are OK except maybe 1 or 2, and there is nowhere on that form that says, are these legitimate charges. Is this an expense that is not chargeable against taxes or against Government contracts or what?

Mr. SHELBY. Mr. Lewis, a couple of other things if the gentleman will continue to yield to me, you used the word in submission of the vouchers and so forth to the——

Mr. LEWIS. To the accounting people?

Mr. SHELBY [continuing]. Right. You used the word inadequate rather than inaccurate. It is a totally different meaning, as you know. The word "inadequate" would suppose, as I understand the meaning of the word, that there would be more to come, whereas inaccurate, that could include something that was false or fraudulent too, couldn't it?

Mr. LEWIS. I am not sure.

Mr. SHELBY. So you chose the word inadequate rather than inaccurately, which is self-serving, isn't it?

Mr. LEWIS. I don't know if I said inaccurate, if I did——

Mr. SHELBY. I think I said inadequate rather than inaccurate. It's probably my southern accent.

Mr. LEWIS. I spent a lot of time down there, too.

Mr. SHELBY. We have been reading about that. We like for you to come to Georgia. I am from Alabama, but we want you to pay for it yourself.

Mr. LEWIS. I understand that, Mr. Shelby. Inadequate meaning that we loaded up the accounting people with decisions that they shouldn't have had to make, and if there had been a place there before signing that form where I would have had to say that trip is appropriate or not appropriate, the burden would have been off of that accountant because I would have said inappropriate, and I think the dog boarding would have been exactly the same category.

Mr. SHELBY. Mr. Lewis, in your opening statement here you said "General Dynamics is an honest and reputable company. It's people operate in accordance with the highest ethical standards."

Mr. LEWIS. Right.

Mr. SHELBY. "It's activities are guided by policies set forth in written directives that conform completely with U.S. Government laws and regulations. The company's employees take those policy statements seriously and perform accordingly."

Now do you recall a memo, I don't have it before me, but it has been before me, that came from one of your officers, telling the people not to put certain information down when you submitted these invoices? Have you seen such a memo or directive in your company? If you haven't——

Mr. LEWIS. I think that was mentioned at the last meeting.

BEST COPY AVAILABLE

Mr. **Shelby** [continuing]. Right, at the last hearing.

Mr. **Lewis**. I said in today's opening statement, as well, that I still think our policies are OK, because they are broad, they are accurate, they are truthful, and in a sense they can be considered mother love, but the implementation of them was not.

Mr. **Shelby**. Let me ask you this. I am looking at an interoffice memo dated the 23d of November it looks like, General Dynamics Corp., corporate headquarters, from Jose Zapeda, to him from P.T. Scanlon. Do you know Mr. Scanlon?

Mr. **Lewis**. When is that?

Mr. **Shelby**. That was——

Mr. **Lewis**. What year?

Mr. **Shelby**. I am just looking at this. It says 23 November 1981. It says among other things "Item 2. For future reference, please do not list names of conferees on the documentation. List only the number of persons and purpose of business conference among other things."

This was after you had been advised—I have been handed a Defense Contract Audit Agency letter dated the 30th of August, 1979, which predated this by over two years, to General Dynamics Corp, telling you among other things, "In order to determine the allowability of business conference expenses the following documentation is required."

I will just go to the third one. A, B, C. C says "Names of employees and guests." Despite this letter from DCAA, your company continued to violate the directive in submitting vouchers for corporate overhead to the taxpayer of the United States, did you not?

Mr. **Lewis**. We violated the opinion of the DCAA, not the law, not the regulations. I think we went through this in nauseating detail last time.

Mr. **Dingell**. The documents will be included for the record at the appropriate place.

Mr. **Shelby**. It might be nauseating to you, Mr. Lewis.

[The documents follow:]

DEFENSE CONTRACT AUDIT AGENCY
CHICAGO REGION
ST. LOUIS BRANCH OFFICE
210 NORTH 12TH STREET, ROOM 1148
ST. LOUIS, MISSOURI 63101

IN REPLY REFER TO
3201/9A140022

30 August 1979

General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 63105

Attention: Mr. W. Ray Crain
Corporate Staff Assistant

Gentlemen:

In order to determine the allowability of business conference expenses, the following documentation is required:

a. Copies of paid invoices attached to a properly prepared travel voucher or expense report for the conference.

b. Date and location of conference or points of travel.

c. Names of employees and guests.

d. Purpose of conference or trip.

e. Report on matters discussed as to the nature of business conducted.

f. Place or name of establishment where the conference or luncheon was held.

The above information is required in order to determine the allowability and allocability of the cost. All of the above documentation has not been available to us in the past; however, since you are required to maintain most of the above information per Section 274-5 of the Internal Revenue Code, we believe this information should be readily available in order for us to make our audit determinations.

Please reply as to the availability of the above documentation by 14 September 1979.

Sincerely,

B. L. Nittler
B. L. NITTLER
Branch Manager

Copy furnished
Mr. Paul J. Webb/CACO

GENERAL DYNAMICS CORPORATION
Corporate Headquarters

Inter-Office Memo

-81 Tax.
0-26-81 CTL,
CTL, 4
4 P

PTS-81-20
23 November 1981

To: Jose Zapata

From: P. T. Scanlan

Subject: Expense Reports 7/28 - 11/7/81

1. Attached find corrected copy of subject expense reports.

2. For future reference, please do not list names of conferees on the documentation. List only the number of persons and purpose of business conference.

3. Additionally, if breakfast, lunch or dinner is actually a business conference, then it should be listed under "Other" expenses and described on the back of the expense report.

4. Hotel room charges should only include room charge plus tax; phone, laundry, garage charges, etc. should be broken out and listed under "Other" expenses.

5. Individual meals, e.g., if you had breakfast alone, should be listed under "B" for that particular day.

6. We will mail your reimbursement just as soon as the check is received from our Accounting Department.

Paul T. Scanlan

PTS:bb

Mr. **Lewis**. I was referring to the Secretary———

Mr. **Shelby**. It might be nauseating to a lot of us. There are a lot of things that you all have done and that we are trying to uncover, but it is not nauseating for us to work on it from the taxpayers' standpoint. It's nauseating to the taxpayer to see the Government bilked out of millions of dollars.

Mr. **Lewis** [continuing]. I apologize for my levity.

Mr. **Shelby**. I yield back.

Mr. **Bilirakis**. Thank you for yielding back whatever time is left, Mr. Shelby.

Mr. **Shelby**. I will give you some of my time.

Mr. **Bilirakis**. Mr. Lewis, you indicated that new procedures are in place?

Mr. **Lewis**. Yes.

Mr. **Bilirakis**. Or being put in place?

Mr. **Lewis**. The latter. They are being developed.

Mr. **Bilirakis**. They are being developed. How long is that going to take, approximately? What sort of period of time are we talking about?

Mr. **Lewis**. Hopefully by the next 2 or 3 weeks, something like that.

Mr. **Bilirakis**. Two or three weeks.

Mr. **Lewis**. They will be retroactively applied back to the beginning of this year. As I mentioned in this statement, we are going through 1984 with the arbitrary fine-tooth comb.

Mr. **Bilirakis**. These procedures then will be placed in writing?

Mr. **Lewis**. Yes, they will.

Mr. **Bilirakis**. And the instructions submitting the procedures to your employees, to the appropriate employees, will also be in writing?

Mr. **Lewis**. Yes; they will, and we expect to have some educational activities on this too.

Mr. **Bilirakis**. Will you furnish to this committee immediately after these procedures have been completed, and we are talking 3 to 4 weeks, I don't mean to put you on a spot here, but I think for the betterment of the company too, it's just significant that we get copies of those abd made a part of this record.

Mr. **Lewis**. We will be pleased to.

Mr. **Dingell**. Without objection the record will remain open for purposes of the insertion in the record.

Mr. **Bilirakis**. Thank you.

[The information follows:]

GENERAL DYNAMICS

CORPORATE POLICY AND PROCEDURE

EFFECTIVE	PAGE	NUMBER
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RESPONSIBLE INDIVIDUAL/DEPARTMENT: F. S. Wood/Corporate V.P. - Contracts and Estimating

APPROVED:

SUBJECT: DETERMINATION OF OVERHEAD EXPENSES APPROPRIATE FOR ALLOCATION TO GOVERNMENT CONTRACTS

PURPOSE

To establish guidelines for determining allowability for Government reimbursement of specific overhead expenses.

POLICY

1. For the Company to seek reimbursement from the Government, the specific cost must be both reasonable in nature and amount, allowable and allocable. Expressly unallowable expenses shall not be submitted to the Government for reimbursement.

2. Whenever an employee is authorized to travel or incur other business expenses for the benefit of the Company, his or her reasonable expenses will be paid or reimbursed by General Dynamics in accordance with existing policies and procedures.

3. The employee incurring the expense or obligation has primary responsibility for documenting and properly explaining/supporting his or her business expenses.

DEFINITIONS

Reasonable Cost - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. What is reasonable depends upon a variety of considerations and circumstances involving both the nature and amount of the cost in question. In determining the reasonableness of a specific cost, consideration shall be given to:

(a) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the company's/division's business or contract performance;

(b) The restraints or requirements imposed by such factors as generally accepted sound business practices, arm's-length bargaining, Federal and State laws and regulations, and contract terms and specifications;

(c) The action that a prudent business person, considering responsibilities to the owners of the business, employees, customers, the Government, and the public at large, would take under the circumstances; and,

(d) Any significant deviations from the established practices of the company that may unjustifiably increase costs.

Allocable Cost - A cost is allocable if it is assignable or chargeable to one or more functions, organizational subdivisions, contract or other work units on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it:

(a) Is incurred specifically for the contract;

(b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or,

(c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

Allowable Cost - A cost is allowable if it is reasonable, allocable and (i) specifically allowable under FAR or (ii) one which the Company has not elected to exclude from proposals for Government contracts.

Expressly Unallowable Cost - A cost is expressly unallowable if, under the provisions of an applicable law, FAR 32-205, or contract, it is specifically named and stated to be unallowable.

EXAMPLES OF ALLOWABLE COST

The following are examples of general categories of cost which are allowable unless specifically limited by the FAR:

- Employee morale, health, and welfare costs
- Labor relations costs
- Defense of claims by Government against contractor
- Recruitment (including advertising)
- Compensation (including fringe benefits)
- Travel
- Transportation
- Depreciation
- Insurance
- Manufacturing and production engineering
- Material and supplies
- Professional services/consultants
- Gains and losses from sale of depreciable property
- Rental costs
- Domestic selling costs
- Legislative liaison
- Corporate aircraft
- Urban league or other employment-related civic organizations

- o Company sponsored or supported events for personnel such as picnics, Christmas parties, open houses where all Company personnel are included
- o State and local taxes
- o Trade, business, technical and professional activities
- o Economic planning cost
- o Directors meetings, stockholders meetings, stock registry and transfer, proxy solicitation, and annual reports
- o IRAD (Independent Research and Development) and B&P (Bid and Proposal) costs
- o Civic and community relations activities
- o Training and educational costs

EXAMPLES OF COST TO BE EXCLUDED FROM OUR PROPOSALS FOR ALLOCATION TO GOVERNMENT CONTRACTS

1. Expressly Unallowable - The following are examples of general categories of costs which are expressly unallowable, unless specifically limited by the FAR:

   - o Fines and penalties
   - o Institutional advertising
   - o Donations (including educational and charitable)
   - o Entertainment and social activities
   - o Lobbying costs
   - o Interest and financing costs (including excess of lease cost over purchase cost of computer equipment)
   - o Bad debts
   - o Acquisition and organization costs
   - o Prosecution of claims against the Government
   - o Defense of fraud proceedings
   - o Patent infringement costs
   - o Certain training and education costs
   - o IRAD & B&P over negotiated ceiling for DOD contracts
   - o Certain compensation costs, i.e., stock options, special pension or retirement benefits
   - o Idle facilities
   - o Losses on other contracts
   - o Certain relocation costs, i.e., tax reimbursements, mortgage principal payments
   - o Foreign selling expense (cannot be allocated to DoD contracts for domestic requirements)
   - o Excess of first class airfare over business/coach class fares

2. Company-Elected Costs To Be Excluded - The following are (i) costs which may be perceived as personal expenses and which may be allowable, but by their description, would lead to an erroneous perception or (ii) costs which are usually questioned by Government auditors:

   - o Memberships in groups that are primarily lobbying organizations
   - o Club memberships and expenses, i.e., country, social, athletic, luncheon, officer

- Use of Company facilities
- Spouse or other family expenses (except relocation)
- Alcoholic beverages/refreshments
- Award functions and expenses external to General Dynamics
- General news periodicals (except reception areas)
- Flowers (other than employee illness or bereavement)
- Personal clothing (purchase or rental)
- Credit card fees (except Company provided)
- Books not directly related to business function
- Exhibits - industrial and trade shows
- Air Force Association, Navy League, Association of U.S. Army
- Miscellaneous sundries while on travel
- Movies (hotel or other)
- Fraternal organizations
- Shoeshines
- Pet boarding
- Babysitting
- Spouse travel
- Voluntary Political Contribution Plan
- Air Shows - Paris, Farmborough, ASEAN, etc.

3. Not Properly Supported or Explained - Any cost for which supporting documentation is not provided, or explanation for incurrence is inadequate.

   - Unreceipted expense where a receipt is required by Corporate or Division policy
   - No reason or inadequate reason for trip or expense
   - Time or subject sensitive (executive recruitment, internal reorganization)
   - Hotel "No Show" bills

PROCEDURES

1. Responsibilities

   A. Employee Responsibilities - As part of the employee's claim for reimbursement, sufficient detail or supporting documentation must be submitted to permit a determination of allowability or unallowability of the cost for allocation to Government contracts.

   B. Supervisor Responsibilities - The person authorized to approve incurrence of the expense is responsible for the sign-off of expense reports or other payments and must review explanations and documentation for compliance with Procedure 1A.

C. Accounting Responsibilities - Accounting is responsible for:

(1) Reviewing all expense vouchers, expense reports, requests for disbursement by check, petty cash vouchers, invoices, inter-division billings, and other pertinent data, to assure that individual items of expense are adequately identified, explained, and supported;

(2) Identifying and segregating costs which are either properly unallowable under FAR and our contracts, or those which the company elects to exclude from its proposals for allocation to Government contracts;

(3) Ensuring proper account segregation and consistency in accounting treatment of costs to ensure compliance with the Cost Accounting Standards as required by the contracts;

(4) Establishing new accounts for costs which historically have been questioned by DCAA to ensure these costs are clearly visible; and,

(5) Issuing detailed written instructions which will ensure compliance with this policy.

D. Overhead Negotiator Responsibilitids - The group designated to negotiate overhead is responsible for:

(1) Advising Accounting of current regulations and interpretations concerning allowability of costs on Government contracts;

(2) Reviewing Accounting "screening" of costs for exclusion from proposals for compliance with both Government requirements to exclude expressly unallowable costs and for compliance with current Company elections to exclude cost from proposals;

(3) Providing general guidance on accounting applications of Government cost principles and Cost Accounting Standards;

(4) Providing guidance and determinations to employees incurring expenses and to Accounting on the allowability of specific items of cost upon request;

(5) Providing final determination as to what cost will be excluded from settlement proposals for negotiation; and,

(6) Negotiating settlements.

E. Management

Supervisors should hold semi-annual indoctrination of all personnel who incur/authorize expenses. The indoctrination should include not only the procedure, explanation and reporting requirements on travel expenses, other incurred expenses and outside vendor invoices, but also should provide the latest guidance available on allowability and non-allowability of costs on our Government contracts. This will ensure to the maximum extent practical that only reasonable and properly supported costs are included in our proposals for allocation to Government contracts.

2. Expense Reporting and Accounting

A. All travel related expenses for which the employee is seeking reimbursement must be separately and specifically identified on his or her Expense Report and submitted promptly following the individual's return to his or her permanent work location. Other business expenses must also be adequately identified by the employee and submitted to Accounting promptly after incurrence or receipt of invoices by the employee.

B. All expenses submitted for payment must be adequately explained, supported, and documented. Documentation required for business conferences must include names and affiliation, location, number of attendees, and subject matter.

C. Where expenses are not adequately explained and supported, they will be treated as unallowable for allocation to Government contracts. Unsupported requests for reimbursement by our employees will be accepted only after approval by person authorized to approve incurrence of the expense. Approval will be granted only in cases where disclosure is sensitive and would jeopardize ongoing activities such as reorganization/acquisition considerations, negotiations, or executive recruitment. Such approvals will be obtained before payment and recording in accounting records.

D. Accounting will record expressly unallowable expenses in separate unallowable accounts. Expenses which the Company elects to exclude from proposals for allocation to Government contracts will be charged to separate accounts. However "elected" exclusions, that by the availability of additional information or that can otherwise be demonstrated to be allowable, will be included in proposals for allocation to Government contracts.

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E. Corporate Accounting will identify the total amount of expressly unallowable cost and other cost to be excluded with all billings and estimates of Corporate Office expense sent to divisions and subsidiaries.

F. Divisions will, as a minimum, exclude the amounts provided by the Corporate Office, plus similar items at the division/subsidiary from all billings and estimates of cost sent to the Government. Normally this total excluded amount will fall well below the "withhold" taken by the Government to cover potential unallowables at the time of final settlements of overhead expense.

REFERENCES

1. Federal Acquisition Regulation (FAR) Part 31, Subpart 2.
2. Executive Memorandum No. 85-1, "Unallowable Cost (Entertainment Expense)", dated 7 January 1985.
3. Executive Memorandum No. 84-17, "Reimbursement for Use of the Corporation's Owned/Leased Aircraft", dated 21 December 1984.
4. Executive Memorandum No. 84-16, "Reimbursement for Use of the Corporation's Washington D.C. Condominium", 21 December 1984.
5. CPP 5-4, "Lobbying and its Cost Allowability on Federal Contracts", dated 28 February 1984.

Mr. **Bilirakis**. Mr. **Broyhill**, I appreciate your having yielded, sir.

Mr. **Dingell**. The time of the gentleman has expired. The Chair recognizes the gentlemen from Oregon, Mr. Wyden.

Mr. **Wyden**. Thank you very much, Mr. Chairman.

Mr. Lewis, I want to turn to another area. Let us set aside this for a moment, and I think you are aware that there were allegations in Business Week magazine on March 25th of his year that General Dynamics may have bribed officials in South Korea and Egypt, in order to sell the F-16 fighter planes. I would like to read you just briefly from that article.

"Veliotis,"talking of course of Takis Veliotis, "who briefly headed General Dynamics overseas sales drive, now alleges that the company bribed government officials in South Korea and Egypt in order to sell the F-16 fighter plane. General Dynamics failed to respond to these allegations, and the request for interviews by Business Week."

Now very frankly I know why you can't be available for interviews with every publication, but we would certainly like to have you discuss this matter with the subcommittee at this time and specifically start by commenting on these allegations by Mr. Veliotis that the company bribed officials in South Korea and Egypt in order to be able to sell the F-16.

Mr. **Lewis**. I absolutely deny that. We have checked very carefully every expenditure we have made. I believe there was the suggestion that it was done by some agent or something. We have no agents, incidentally, in our company, and we have one man with an office and a number of people in Egypt, and a company in Korea.

We have checked very carefully. We have had our people talk to them very carefully, with respect to this, and the funds that we pay these people, there isn't any available funds in there to bribe anybody, and I am absolutely confident as I can be with having made checks and had checks made, that these are absolutely false statements.

Mr. **Wyden**. We appreciate that answer. It is certainly very straightforward, and I guess now we will see whether Mr. Veliotis has some tape recordings that might indicate otherwise. I have got some specific questions about GD's activities in Korea, but first I want to begin by asking you whether you are familiar with the Foreign Corrupt Practices Act?

Mr. **Lewis**. Yes, I am.

Mr. **Wyden**. Can you briefly describe your interpretation of the intent of that legislation?

Mr. **Lewis**. Well, the legislation is quite broad, and I don't think I can interpret the whole thing, but it's perfectly clear that with respect to the foreign sales, which is only a small portion of that act as I remember it, that obviously you are not to pay any commission agents for use of money for bribes and other unseemly purposes.

Mr. **Wyden**. Let me read to you a portion of an internal General Dynamics memo that was prepared in 1975. It's a memo that relates directly to the position of General Dynamics with respect to the Foreign Corrupt Practices Act. It's a memo from Mr. A.M. Barton to Mr. William Gorvine.

I am just going to read the two relevant paragraphs.

> You requested us to review our records to determine if the division had made any political contributions or payments to foreign agents during the period 1970 through the current month.

Then it goes on at the bottom of the page:

> Any payments to anyone made through a front organization which would be done under the appearance of a payment in the normal course of business would never be found without a complete check and an audit of all the payments made by the division in all of the years in question. There are many avenues through which such a payment might be made. For example, via a consulting agreement or an advertising payment or cash subsequently covered by a series of expense vouchers.
>
> Perhaps payments via the purchasing department to a "front organization," as long as the amounts did not seem out of line with the type of transaction people are normally accustomed to reviewing, no one would have been the wiser.

Is that the company's policy with respect to doing——

Mr. LEWIS. I would like to see that memorandum, please, Mr. Wyden. I have never heard of that.

[Witnesses read memorandum.]

Mr. LEWIS. Is this the complete memorandum, Mr. Wyden?

Mr. WYDEN. There are other items——

Mr. LEWIS. Perhaps we could see those.

Mr. WYDEN. I would be happy to give you the other one. It doesn't deal with our question, but let us give you that second page, as well.

While we are waiting, Mr. Chairman, I would ask unanimous consent that these materials and a number of others be placed in the record.

Mr. DINGELL. Without objection, the documents referred to will be inserted in the record at the appropriate place.

[The memorandum referred to follows:]

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

104. 165

TO: Mr. William Gorvine

Date: May 28, 1975

FROM: A. M. Barton

FILE NO.:

SUBJECT: Contributions

REFERENCE:

THIS DOCUMENT CONTAINS TRADE SECRETS AND COMMERICAL OR FINANCIAL INFORMATION OF GENERAL DYNAMICS CORPORATION AND IS PRIVILEGED OR CONFIDENTIAL. IT IS CONSIDERED EXEMPT FROM DISCLOSURE UNDER THE PROVISIONS OF THE FREEDOM OF INFORMATION ACT AND/OR OTHER APPLICABLE STATUTES. IT IS SUBMITTED ON THE CONDITION THAT ITS CONTENTS WILL NOT BE RELEASED WITHOUT PRIOR WRITTEN NOTICE TO GENERAL DYNAMICS CORPORATION.

You requested that we review our records to determine if the Division had made any political contributions or payments to foreign agents during the period 1970 through the current month.

It is not possible to ascertain from Division records if such payments were made in a clandestine fashion. Any contributions that might be made to any person or organization which are currently identified as a contribution are charged to one single overhead expense account established for that purpose. This account is an unallowable cost account. It is reviewed periodically by both the Corporate auditors and the Division auditors, and the amounts and organizations receiving contributions are compared against those which are authorized by the Corporate Office. Consequently, our routine checks would have flagged any unusual contributions. Since this did not happen, I must assume that nothing out of the ordinary was done with respect to this type of payment.

Any other costs incurred by the Division which would be in the nature of a payment to either a foreign agent or some politician which would have been charged to an unallowable cost account would have been reviewed in the normal course of business by both the Corporate and Division auditors in a manner similar to contributions. Anything out of the ordinary would have been noticed and reviewed.

Any payments to anyone made through a "front" organization which would be done under the appearances of a payment in the normal course of business would never be found without a complete check and audit of all of the payments made by the Division in all of the years in question. There are many avenues through which such a payment might be made; for example, via a consulting agreement or an advertising payment or cash subsequently covered by a series of expense vouchers--perhaps, payments via the Purchasing Department to a "front" organization. As long as the amounts did not seem out of line with the type of transaction people are normally accustomed to reviewing, no one would have been the wiser.

BEST COPY AVAILABLE

I have had Chuck Kruse discuss this matter with Jack Currie, Dick Laffargue and Mike Malvinni, each of whom was Chief of Audit Liaison at some time during the period in question. While none of them recalls any contributions or payments that fall within the definitions contained in the SEC letter, we have made contributions and payments involving the following: The Connecticut Public Expenditure Council; the Etherington Commission; a consulting agreement with Samuel Hellier during his term as a State Legislator; and, finally, with respect to W. J. McElroy, personal time off was granted during his tenure as a Rhode Island State Legislator while the Legislature was in session. This personal time off was paid.

Chuck Kruse has also checked with Jim Fielder at Avenel to determine if any payments of the kind discussed herein were made by EDY. Fielder discussed the matter with Pete Goetz and McCarthy, (the IRD man at Avenel), who are the only two "old timers" there. They say there were no such payments made by EDY.

AMB:MR

THIS DOCUMENT CONTAINS TRADE SECRETS AND COMMERICAL OR FINANCIAL INFORMATION OF GENERAL DYNAMICS CORPORATION AND IS PRIVILEGED OR CONFIDENTIAL. IT IS CONSIDERED EXEMPT FROM DISCLOSURE UNDER THE PROVISIONS OF THE FREEDOM OF INFORMATION ACT AND/OR OTHER APPLICABLE STATUTES. IT IS SUBMITTED ON THE CONDITION THAT ITS CONTENTS WILL NOT BE RELEASED WITHOUT PRIOR WRITTEN NOTICE TO GENERAL DYNAMICS CORPORATION.

Mr. **Wyden**. Mr. Chairman, I would ask unanimous consent that reading time be excluded from my time.

Mr. **Lewis**. Excuse me.

Mr. **Wyden**. That was a comment to the chairman.

Mr. **Lewis**. Mr. Wyden, I see this. I believe the Foreign Corrupt Practices Act was not in effect at this time, but I think this is a philosophic treatise, it seems to me, or a potential analysis of how things could happen. It says nothing at all about anything having happened.

Mr. **Wyden**. Is this——

Mr. **Lewis**. Is that your interpretation?

Mr. **Wyden** [continuing]. Well, this strikes me as a very detailed description of how the company attempts to make questionable payments overseas and use a variety of sleight-of-hand maneuvers to make sure no one finds out. It describes front organizations, says many avenues through which such a payment might be made, and that is in connection with a sentence that said it would never be found.

I think my question to you is: Is this company policy?

Mr. **Lewis**. No; absolutely not.

Mr. **Wyden**. It is not?

Mr. **Lewis**. Absolutely not.

I have no idea why this was written. We could only speculate. But absolutely not.

Mr. **Wyden**. You would repudiate this as a way of doing business overseas?

Mr. **Lewis**. I don't think it says it's a way of doing business. It's pointing out, it seems to me—from a brief reading of it—it is pointing out ways where something could happen. And I would follow that—which is, again, speculation to the second power—that these holes ought to be plugged.

Mr. **Wyden**. Do you think that the company should use ways of making payments overseas——

Mr. **Lewis**. Absolutely not.

Mr. **Wyden** [continuing]. That would never be found out?

Mr. **Lewis**. Absolutely not. And I think our record is outstanding, and we have a great deal of international business. And we have had ample opportunity to engage in all kinds of bribes and stuff, and I will tell you we have not done it.

Mr. **Wyden**. Let me ask some more detailed questions now with respect to the way you all do your overseas business.

Who is General Yoon?

Mr. **Lewis**. General Yoon is the head of the company I mentioned that we—that supplies services to us in Korea. It's a consulting organization.

Mr. **Wyden**. Now, the taxpayer, as I understand it, pays him over $300,000 per year to do these activities.

Could you describe them in greater detail for the subcommittee?

Mr. **Lewis**. I don't believe that is accurate. That isn't accurate. That is not an accurate number.

Mr. Yoon, the only number I know of——

Mr. **Wyden**. Excuse me.

Mr. **Lewis** [continuing]. The only number I know of was higher.

Mr. **Wyden**. Excuse me. I am advised it is $250,000.

Mr. **Lewis.** Yes.

Mr. **Wyden.** Excuse me for that.

Mr. **Lewis.** There was a number over $300,000 when he was given a retroactive adjustment when the contract ran out.

Mr. **Wyden.** What does he do for the taxpayers, then, that justifies paying him $250,000 per year?

Mr. **Lewis.** I don't know whether that account is charged to the taxpayers or not, but I can tell you what he does. He has an office. They do—they provide marketing information. They do interpretation, they interpret documents. They provide personal interpretation, vocal on meetings, working with our Land Systems Division, and with Fort Worth.

Mr. **Dingell.** Would the gentleman yield?

Mr. **Wyden.** I will be happy to yield.

Mr. **Dingell.** Was this charged as an allowable account to the Federal Government?

Mr. **Lewis.** I don't know.

Mr. **Dingell.** Should this have been charged to the Federal Government under the rules and regulations and procedures of your company, and the procedures of the Department of Defense?

Mr. **Lewis.** I don't know whether it should or not. You asked about with respect to the contracts.

Mr. **Dingell.** With regard to the contracts between General Dynamics and General Yoon.

Mr. **Lewis.** The decision on these things has to be made by the Department of Defense as to whether they are in favor of having the Korean allies—if that is their official status, have these pieces of equipment. We are involved in their very intensive offset programs which involves a tremendous amount of work with industry, dozens of companies in Korea, because we do not want to send people to Korea to handle those jobs. They are knowledgeable on the scene there, and they are doing a job that is part of our FMS program.

Mr. **Dingell.** Let me try and see this differently. I am unclear as to what it was that General Yoon was doing for General Dynamics.

Can you tell me exactly what his duties were?

Mr. **Lewis.** Well, his company, first——

Mr. **Dingell.** His company or himself? He got, as I understand, $250,000 annually. His company was on for, I think, $128,000 a year.

Is that correct?

Mr. **Lewis.** Yes.

Mr. **Dingell.** Was that at another time or at the same time?

Mr. **Lewis.** It is my understanding that all our payments are made to Buyeon Co.

Mr. **Dingell.** I beg your pardon?

Mr. **Lewis.** Buyeon Co. It is my understanding that all our payments go to Buyeon Co.

Mr. **Dingell.** Yoon was in prison, was he not?

Mr. **Lewis.** He still is, I believe.

Mr. **Dingell.** Let me ask you this question: I am trying to figure out what it is that he did to justify this payment by General Dynamics. I am trying to find out whether this was a fund or an expenditure that was charged to the Defense Department as part of the particular contract.

I note that item 6 and item 7 of the contract are as follows: "(6) Discuss why these services are required: Evaluation of consultant, sales agent services including rating of performance under current agreement; (7) Actions to locate qualified personnel within General Dynamics." Both item 6 and item 7 are without any statement inserted into the contract.

Can you tell me why that is?

Mr. LEWIS. I don't know what you are reading from, Mr. Chairman.

Mr. DINGELL. I beg your pardon?

Mr. LEWIS. I have no idea what you are reading from.

Mr. DINGELL. It is a copy of the contract.

Mr. LEWIS. Which contract? The contract between——

Mr. DINGELL. It's a request for initiation or extension of foreign consultant and/or sales agent services.

Neither item 6, which is to discuss why these services are required, or item 7, actions to locate qualified personnel within General Dynamics, are filled out. As a matter of fact, item 8 describes local registration, disclosure requirements and, regarding use of gifts, indicate any potential conflicts of interest; 9, list of other companies or organizations for whom consulting agent is now working; 10, provide justification for any proposed deviation from any standard agreement form terms are filled out.

There are no supporting materials attached. The contract is signed by you. It is also signed by—I can't recognize the other names. They are five other officers of the corporation, though.

Mr. LEWIS. First, Mr. Chairman, I do not know, but it says there is an attached agreement, and I presume you and your staff have read that. This is, incidentally, a text of a contract I believe that Mr.—that Buyeon has worked for General Dynamics for about 10 years, and this is a follow-on contract dated August 1982, and this is the retroactive part I was referring to where we were signing a contract through July 1986 beginning in July 1981. But we had, I believe, 5 years' prior contract where all this definition is, and I—we have very thorough contracts that describe exactly what these people are to do and their limitations and their prohibitions with respect to payments in the Korean law and in the U.S. law.

Mr. DINGELL. Would you submit to this committee all prior contracts together with the amounts of all sums to either Buyeon or to General Yoon?

Mr. LEWIS. Yes, we will.

[Testimony resumes on p. 598.]

[The following documents were submitted:]

GENERAL DYNAMICS PRIVATE INFORMATION

APPENDIX A

REQUEST FOR INITIATION OR EXTENSION OF FOREIGN CONSULTANT AND/OR SALES AGENT SERVICES

1. Name of Division: Corporate Office - International Date: 20 August 1982

2. Type of Agreement: Consultant ☒ Representative ☐ Distributor ☐ Other ☐

3. Name and Title of GD Employee to Whom Consultant/Sales Agent Will Report:
J.R. Mellor, Executive Vice President - International

4. Name of Consultant/Sales Agent: Buyeon Company, Ltd. Telex: BUYEON K26551

Name of President: E.Y. Yoon Cable: Buyeon, Seoul

Address:
Seung Kong Hwae Bldg. /Gwang Hwa Mur
3-7 Jung-Dong, Chung-ku P.O. Box 1339
Seoul, Korea Seoul, Korea

Telephone:
723-1726, 723-9496
723-9153

5. Period of Proposed Agreement:
5 Years beginning 1 July 1981

Projected Number of Days of Utilization: --

Proposed Fee or Commission and Justification for:
Consulting services - fee of $250,000 annually (as approved in March 1982)

Describe Services to be Provided:
See paragraph 1 of the attached agreement.

6. Discuss Why These Services Are Required:

Evaluation of Consultant/Sales Agent Services Including Rating of Performance Under Current Agreement:*

7. Actions to Locate Qualified Personnel Within General Dynamics:

*Applies to Extensions Only

GENERAL DYNAMICS PRIVATE INFORMATION

GDC 300 11/80

August **GENERAL DYNAMICS PRIVATE INFORMATION**

APPENDIX A

Describe Local Registration, and Disclosure Requirements or Prohibition Regarding Use of Services and Indicate Any Potential Conflicts of Interest:

9. List Other Companies or Organizations for which the Consultant/Sales Agent is Now Working:

10. Provide Justification for Any Proposed Deviations from Standard Agreement Form, Terms and Conditions:

1. Attach Supporting Materials as Checked (If More Than Six Months Old, Update):

______ D & B
______ Banks
______ GD Field Office
______ Other
______ US Embassy
______ World Traders Data Report (DOC)
______ Past/Present Clients

DIVISION APPROVALS (As Appropriate)		
rnational Marketing	Cognizant Function Head	Legal
strial Relations	President/General Manager	

CORPORATE APPROVALS (As Appropriate)	
rman D. S. Lewis 14 Sept 19	VP and General Counsel 25 Aug 1982
utive VP - Aerospace 9/1/82	Executive VP International 8/25/82
ent 8/31/82	VP Industrial Relations 9/7

GENERAL DYNAMICS PRIVATE INFORMATION

Current Contract
7/1/81 - 86

Agreement By and Between General Dynamics Corporation
Having its Principal Executive Offices at
Pierre Laclede Center, St. Louis, Missouri, U.S.A.
and Buyeon Company, Limited
Having its Head Offices at Seung Kong Hwae Bldg.,
3-7, Jung-Dong, Chung-Gu
C.P.O. Box 8648
Seoul, Republic of Korea (Consultant)

WHEREAS, General Dynamics Corporation wishes to make a survey of the market and to seek business opportunities in the Republic of Korea (ROK) ("Territory") for it and its subsidiaries (General Dynamics Corporation and its subsidiaries collectively referred to herein as GD); and

WHEREAS, Consultant is willing to help GD realize this objective. NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

1. SERVICES TO BE RENDERED

1.1 General Marketing Consulting Services including, among others:

a) identifying and profiling decision makers

b) informing decision makers of GD's capabilities in advance of GD contacts, reinforcing GD contact efforts, providing constructive feedback both as to meetings held and as to next recommended follow-through actions

c) providing concrete, factual data as requested as to competitor activities, proposals and ranking as compared to GD and constructive recommendations for GD counter strategies and actions.

d) providing factual data about political, economic, social and other factor changes, trends and forecasts that affect GD business development plans along with assessments as to the impact of such factors on GD actions and concrete recommendations so that GD action plans can be appropriately adjusted on a timely basis or the cost of GD managerial or staff time is not unnecessarily expended.

e) General:

- maintaining and enhancing GD's local presence
- maintaining continuous liaison with customers and potential customers
- providing support services for GD personnel visiting the Territory
- providing analysis of and improvement recommendations for GD's planned marketing programs
- providing clarification or commentary as requested in understanding or interpreting any of the services above and reports furnished.

f) Any contact with the press will be limited to survey or clipping type services. Direct or indirect contact on GD products or operations with the press will be handled solely by GD and/or its designated representative.

1.2 Support Facilities Services

a) Suitable facilities in Seoul, Republic of Korea, for GD executives and visiting GD personnel as follows:

(i) Furnished office premises for GD executives and for visitors, including one conference room.

(ii) Telephone lines as required for GD's exclusive use and access to Consultant's telex facilities, including basic monthly charges for both, but not including additional charges for usage.

(iii) Long distance and telex communications for GD executives and visiting personnel.

(iv) Office supplies.

(v) Xerox services on the premises provided in (a)(i) above.

(vi) Parking space(s) for GD executives as required.

b) Administrative services as follows:

(i) Upon request by GD, any translation, printing, charting and publication services.

1.3 Personnel Support Services

For GD personnel located by GD in the Territory for whom Personnel Support services are not already provided under government provisions, and, as specifically requested by GD, Consultant may be requested to arrange for or provide housing, household furnishings, communications and air or ground transportation.

2. COMPENSATION ARRANGEMENTS

2.1 For General Marketing Consulting Services, described in 1.1 above: GD shall pay to Consultant a fee at an annual rate of U.S. $250,000 (commencing 1 July 1981) payable in equal monthly installments to be forwarded to Consultant's address in Korea. When expressly authorized in advance, in writing, by GD, Consultant shall be reimbursed for reasonable and actual travel expenses outside the Territory upon presentation of proper receipts and invoices. Additionally, with prior written approval by the Executive Vice President - International, Consultant may be reimbursed for extraordinary travel and other legitimate business expenses not otherwise covered in this agreement and upon presentation of proper receipts and invoices.

2.2 For Support Facilities Services, described in 1.2 above: Consultant shall be paid a fee of U.S. $10,710 monthly for each calendar month such support facilities and services are provided. Additionally, Consultant shall be reimbursed actual costs for communication services described in paragraph 1.2 (a)(ii) hereinabove and, when expressly authorized in advance, actual costs of translation, printing, charting, and publication described in paragraph 1.2 (b)(i) hereinabove. These additional costs shall be paid monthly upon presentation of proper receipts and invoices. This arrangement shall commence as of 1 July 1981 and terminate as of 24:01 a.m. Korean Time, 1 March 1983.

GD and Consultant may agree, following their review of any request submitted by Consultant on or before 30

November 1982, upon the whole or any part of the amount requested by Consultant to be paid to Consultant by reason of the termination under this paragraph 2.2, which amount shall be for any reasonable cancellation charges thereby incurred by Consultant and any reasonable loss upon outstanding commitments for personal services which Consultant is unable to cancel; provided, however, that in connection with any outstanding commitments for personal services which Consultant is unable to cancel, Consultant shall have exercised reasonable diligence to divert such commitments to his other activities and operations.

2.3 For Personnel Support Services, described in 1.3 above: Consultant shall be paid fees, agreed upon in advance, and supported by appropriate documentation provided that such fees shall be reasonable and competitive within the Territory.

2.4 General: Notwithstanding the foregoing in no event shall this Agreement require GD to pay or continue to pay any compensation to Consultant if such compensation is or becomes prohibited by law, regulation or administrative action of the Government of the United States or the Government of the Territory. Further, in the event that the Government of the United States or the Government of the Territory, at any time, restricts and/or limits the amount of such compensation it will recognize, then the compensation payable hereunder shall be reduced in accordance with such restriction and/or limitation.

3. TERM OF AGREEMENT

The term of this Agreement shall be five (5) years commencing 1 July 1981. This five-year term may be extended by GD, at its option, for additional one (1) year increments, by notice at least thirty (30) days prior to the date of expiration of this Agreement.

4. SCOPE OF EFFORT

The consulting services to be rendered hereunder shall be directed to all GD exportable weapon systems and commercial products from any division that has sales potential in the ROK. From time to time GD may request Consultant to place special emphasis on specific products, product lines or service projects. Such request(s) will be by the Executive Vice President-International, or such person(s) as he shall designate. It is recognized GD and Consultant may agree from time to time that it is desirable for Consultant to provide additional support, beyond the services provided for herein. Such services shall be subject to separate, prior written agreements between the parties. However, nothing herein shall preclude GD from obtaining such services from other sources or require Consultant to provide such services.

5. AVAILABILITY TO GD

Consultant shall make his services available to GD throughout the term of this Agreement. Consultant shall at no time perform such services for or represent any party whose interests conflict or are competitive with the product lines of GD specified (or hereafter specified) in paragraph 4 above. If Consultant wishes to perform consulting services for any other person or organization during the term of this Agreement, Consultant shall furnish GD the name and address of each such person or organization and inform GD of the general character of such consulting services. General Dynamics will promptly review the request and will consent in writing unless it determines in good faith that such proposed representation will conflict with the sale of products of General Dynamics covered by this Agreement. In the event Consultant undertakes such obligations without prior GD agreement, GD may, at any time and without limitation of any other rights GD may have, terminate this Agreement by written notice to Consultant specifying the effective date of termination.

6. REPORTS OF WORK

Consultant shall make immediate reports to GD on all matters time-sensitive in nature. In addition, at the sole option of GD, Consultant may be required to submit written monthly reports to GD, making full disclosure of all services performed during the preceding month pursuant to this Agreement. Consultant shall from time to time, at the request of GD, and, in any event, upon expiration or termination of this Agreement, deliver to GD all working papers and other documents and materials that have been prepared or developed by Consultant or made available to Consultant in connection with performance of services under this Agreement. All reports of work will be sent to the Director-Far East, GD, with a copy to the Executive Vice President-International, GD. It is mutually understood that the contents of all reports will be subject to the restrictions on information of both countries.

7. CONFIDENTIAL NATURE OF WORK

Consultant shall not, during any part or after the term of this Agreement, divulge to any other than GD officers (or such other parties as a GD officer shall designate) or, except in the performance of this Agreement, make any use of information or knowledge relating to (a) any facilities or services which Consultant shall provide or (b) other business of GD or any of its related companies, divisions, subsidiaries, or suppliers, which Consultant shall have obtained during the term of this Agreement and which shall not be generally known.

8. LAWS AND REGULATIONS

Consultant shall at all times comply with all laws, regulations and ethical standards applicable to business activities in the performance of this Agreement and without limiting the generality of the foregoing, all statutes, laws and regulations and ethical standards of the United States, including the Foreign Corrupt Practices Act of 1977 (P.L. 95-313), as well as those of the Government of the ROK and, further, Consultant represents and warrants that no portion of the fee or compensation paid or to be paid to Consultant pursuant to this Agreement, nor other monies or benefits from whatever source derived, have been or will be offered, obligated or expended, directly or indirectly, for the benefit, directly or indirectly, of any person or entity, official or private, with a view to obtaining special preference therefor. This Agreement shall automatically terminate if Consultant shall violate any of such statutes, laws or regulations during the term of this Agreement.

9. FORCE MAJEURE

The failure of either party hereto to perform any obligation under this Agreement or to be prompt in the performance of the terms and conditions herein by reason of acts of God, acts of government, wars, civil disturbance, strikes, accidents in transportation or other cause beyond its control shall not be deemed a breach of this Agreement.

10. ASSIGNMENT

Without first obtaining the prior written consent of GD, Consultant shall not assign or transfer, all or any part of this Agreement, or any of Consultant's rights or obligations hereunder (including, but not limited to, the right of Consultant to receive any fees hereunder).

11. ENTIRE AGREEMENT, PAROLE OR EXTRINSIC EVIDENCE, WAIVERS AND SEVERABILITY

a. This written agreement, together with any written amendments hereof, constitutes the entire agreement between the parties relating to the subject matter herein; it is the final expression of the agreement between the parties.

b. Terms included herein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement but may be explained or supplemented, if required, by:

(i) Subsequent course of dealing or performance; and

(ii) Evidence of consistent, additional terms except where this written agreement is a complete and exclusive statement of the terms agreed upon. No change in, addition to, or waiver of the terms and provisions herein shall be binding upon either party unless approved by it in writing.

c. The failure by any party to exercise or enforce any of the terms or provisions of this Agreement shall not constitute or be deemed a waiver of that party's right thereafter to enforce each and every term and provision of this Agreement.

d. Should a court of law or arbitrator hold that one or more of the provisions in this Agreement is invalid, illegal, or unenforceable, such a decision will not affect the enforceability of the other provisions.

12. ARBITRATION

a. All disputes arising in connection with the present agreement shall be finally settled by arbitration. Arbitration to be held outside the United States of America shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, unless by written agreement the parties adopt the Rules of the American Arbitration Association. Arbitration to be held in the United States of America shall be conducted in accordance with the Rules of the American Arbitration Association, unless by written agreement the parties adopt the Rules of Arbitration of the International Chamber of Commerce.

b. Judgment upon the award rendered may be entered in any Court having jurisdiction or application may be made to such Court for a judicial acceptance of the award and an order or enforcement, as the case may be.

13. ENFORCEMENT COSTS

The parties agree that the unsuccessful party shall pay and discharge all reasonable attorney's fees, costs and expenses (including but not limited to the cost of litigation (訴訟費用 sosong biyong) that are incurred by itself and by the successful party in enforcing this Agreement.

14. NOTICES

All notices and reports, which are or may be required to be furnished under this Agreement by either of the parties to the other, shall be in writing and shall be effective, unless otherwise provided, when either served by personal delivery, or deposited, postage prepaid, in the registered air mail, addressed to the addressee at the address first shown above, or to such changed address as the addressee shall have specified by prior notice.

15. NATURE OF RELATIONSHIP

In performing any services pursuant to this Agreement, Consultant shall act as an independent contractor and not as an employee, agent, or representative of GD. Consultant shall not enter into any agreements or incur any obligations on behalf of GD, or commit GD in any manner whatsoever, without the prior written consent of GD.

It is expressly understood that no principal of Consultant's firm can also be an employee, officer, or representative of any customer or of those government agencies responsible for the procurement of GD products or services or whose approval is essential to such procurement or its financing. Principals include the individual sales representative or any major owner, major stockholder, officer, director or active representative of an advisory company or organization.

TERM OF AGREEMENT
AVAILABILITY TO GD
LAWS & REGULATIONS

16. TERMINATION

a. In addition to paragraphs 3, 5 and 8, either party hereto, at any time, may also terminate this Agreement by giving the other party notice of the reasons therefor as follows:

    (i) If for any reason General E. Y. Yoon is no longer associated with the Consultant in an active and continuous business capacity representing GD in the Territory.

(ii) If the other party enters bankruptcy (破産 p'asan), composition (和議 hwaui), company reorganization (会社整理 hoesa chongni), liquidation (清算 ch'ongsan) proceedings or becomes insolvent due to its inability to pay its debts as they mature; or

(iii) If either party breached any of the terms, provisions, or conditions of this Agreement.

b. Consultant's obligations pursuant to paragraph 7 hereinabove shall survive any termination or expiration of this Agreement.

c. Any termination pursuant to paragraphs 5 and 8 hereinabove or this paragraph 16 or expiration pursuant to paragraph 3 hereinabove shall not release or discharge any obligation of either party that shall have accrued prior to the effective date of such termination or expiration.

17. GOVERNING LAW AND LANGUAGE

This Agreement shall be governed by and interpreted and construed in accordance with substantive law (実質法 silchilbop) of the Republic of Korea and the English language version of this Agreement shall be controlling.

BUYEON COMPANY, LIMITED

By E. Y. Yoon
E. Y. Yoon
President

Title ____________

Date 2nd November 1982

GENERAL DYNAMICS CORPORATION

By ____________
J. R. Mellor
Executive Vice President-International

Date 14 September 1982

AMENDMENT NO. 1 TO THE
AGREEMENT BETWEEN GENERAL DYNAMICS CORPORATION
AND BUYEON COMPANY LIMITED

This Amendment No. 1 to the Agreement by and between General Dynamics Corporation (GDC) and Buyeon Company, Limited (Consultant) is effective the 1st day of April 1980.

WITNESSETH:

WHEREAS, GDC and Consultant entered into an Agreement effective the 1st day of July 1979 for Consultant to provide certain advisory and support services to GDC for the territory of Korea, and

WHEREAS, the parties wish to add and change certain provisions of that Agreement,

NOW, THEREFORE, GDC and Consultant agree as follows:

1. Paragraph 2, Support Facilities and Services to be Provided, is changed to read as follows:

"Consultant shall provide the following logistic support.

(i) Suitable facilities in Seoul, Republic of Korea for one (1) GDC executive and for visiting GDC personnel as follows:

(a) Furnished office premises for one (1) GDC executive and extra office for visitors.

(b) One (1) telephone line for GDC's exclusive use and access to Consultant's telex facilities including basic monthly charges for both but not including additional charges for usage.

(c) Long distance and telex communications for GDC executive and visiting personnel.

(d) Office supplies.

(e) Xerox services on the premises provided in (a) above.

(ii) Administrative services as follows:

(a) One full-time secretary for GDC executive at the office premises described hereinabove."

2. Paragraph 6-(b) is changed to read as follows:

"(b) For support facilities and services to be provided pursuant to paragraph 2, a fee of U.S. $10,710 to be paid monthly to Consultant for each calendar month such support facilities and services are provided. Additionally, Consultant shall be reimbursed actual costs for communication services described in paragraph 2 (i)(b) hereinabove and, when expressly authorized in advance actual costs of translation, printing, charting, and publication described in paragraph 2 (ii)(c) hereinabove. These additional costs shall be paid monthly upon presentation of proper receipts and invoices. GDC may, at any time and at its sole option, terminate the support facilities and services by notice to Consultant thirty (30) days prior to the date of such termination. Termination of these support facilities and services shall not be construed as a termination of this Agreement nor shall it release Consultant from any other obligations hereunder."

3. Paragraph 6-(c) is eliminated.

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 1 to be executed by the signature of its duly authorized officer.

BUYEON COMPANY, LIMITED	GENERAL DYNAMICS CORPORATION
By E. G. Yoon	By
Title President	Title Vice President
Date 18 August 1980	Date 5 August 1980

SUPPLEMENTAL AGREEMENT TO THE AGREEMENT BETWEEN GENERAL DYNAMICS CORPORATION AND BUYEON COMPANY, LIMITED

This Supplemental Agreement by and between General Dynamics Corporation (GDC) and Buyeon Company, Limited (Consultant) is effective as of the 1st. day of January, 1978.

WITNESSETH:

WHEREAS, GDC and Consultant entered into an Agreement effective the 1st. day of January, 1977 for Consultant to provide certain advisory and support services to GDC for the territory of the Republic of Korea, and

WHEREAS, the parties wish to add and change certain provisions of that Agreement,

NOW, THEREFORE, GDC and Consultant agree as follows:

1. Paragraph 1.(v) is added to read as follows:

   (v) Assist in conveying specific GDC product information to designated parties in the Territory.

2. Paragraph 2.(i)(e) is changed to read as follows:

   (e) Transportation (if requested by GDC, Consultant shall contract for an automobile and driver for the exclusive use of the GDC executive)

3. The first sentence of Paragraph 3. is changed to read as follows:

   The term of this Agreement shall be three (3) years from the effective date specified in Paragraph 19.

4. Paragraph 6.a. is changed to read as follows:

   a. For advisory services to be rendered pursuant to Paragraph 1 hereinabove, a base fee of U.S. $1,000.00 per month for the first year and U.S. $2,000.00 per month for each month thereafter. Further Consultant shall be re- 4 sponsible for and pay any and all expenses related to the advisory services provided herein including salaries of assistants, clerical and secretarial help consultant deems necessary or desirable, rent, utilities, and necessary transportation and travel expenses within the Territory. As compensation for such expenses, Consultant shall be entitled to an overhead charge of 150% of the base fee, namely U.S. $1500.00 per month for the first year and U.S. $3,000.00 per month for each month thereafter. The total of the base fee and overhead charge shall be paid monthly. Additionally, when expressly authorized in advance, in writing, by GDC, Consultant shall be reimbursed for reasonable and actual travel expenses outside the territory upon presentation of proper receipts and invoices.

5. The first sentence of Paragraph 6.b. is changed to read as follows:

   b. For support facilities and services to be provided pursuant to Paragraph 2, a fee of U.S. $3,400.00 per month for the first year and U.S. $3,300 (plus the actual cost of transportation if provided) per month for each month thereafter to be paid monthly to Consultant for each calendar month such support facilities and services are required and provided.

IN WITNESS WHEREOF, each of the parties hereto has caused this Supplemental Agreement to be executed by the signature of its duly authorized officer.

BUYEON COMPANY, LIMITED	GENERAL DYNAMICS CORPORATION
By C. Y. Yoon	By
Title President	Title Vice Pres., Int'l Rel.
Date 2/28/78	Date 2/15/78

GENERAL DYNAMICS

Pierre Laclede Center, St. Louis, Missouri 63105

21 December 1976

Agreement by and between General Dynamics Corporation
having its prinicpal executive offices at
Pierre Laclede Center, St. Louis, Missouri, U.S.A. (GDC)
and Buycon Company, Limited
having its head offices at Seung Kong Hwae Bldg., 3-7, Jung-Dong, Chung-Gu
Gwang Hwa Mun P. O. Box 1339,
Seoul, Republic of Korea (Consultant)

In consideration of the mutual agreements herein contained, the parties hereby agree as follows:

1. SCOPE OF SERVICES

Consultant shall serve as an advisor to GDC for the territory of the Republic of Korea ("Territory") and Consultant shall provide the following advisory services:

(i) Reports on the current situation, problems, trends, and Consultant's forecasts, both long and short-term, regarding the political and economic situation in the Territory.

(ii) Analysis of the probable impact of such trends which might influence the current business and products of GDC and the development of new products and opportunities for expansion or growth of GDC business in the Territory.

(iii) Analysis of GDC's planned marketing program as well as the effectiveness of GDC's current marketing programs and Consultant's advice for improvements.

(iv) Any clarifying explanations or commentaries requested by GDC to assist GDC in understanding and interpreting the services performed and the reports furnished.

2. SUPPORT FACILITIES AND SERVICES TO BE PROVIDED

Consultant shall provide the following logistic support.

(i) Suitable facilities in Seoul, Republic of Korea for one (1) GDC executive as follows:

(a) Furnished office premises for one (1) GDC executive.

(b) One (1) telephone line for GDC's exclusive use and access to Consultant's telex facilities including basic monthly charges for both but not including additional charges for usage.

(c) Long distance and telex communications for GDC executive.

(d) Office supplies.

(e) Transportation (use of Consultant's automobile and driver, as needed).

(ii) Administrative services as follows:

(a) Secretarial service for one (1) GDC executive at the office premises described hereinabove.

(b) Upon request by GDC, any translation, printing, charting, and publication services.

3. TERM OF AGREEMENT

The term of this Agreement shall be two (2) years from the effective date specified in paragraph 19. This term may be extended by GDC, at its option for an additional one (1) year, by notice at least thirty (30) days prior to the date of expiration of this Agreement.

4. SCOPE OF EFFORT

Consultant shall initially direct his efforts to the Standard Missile, FPS Radar Modification, and Air Combat Fighter product lines. From time to time GDC shall notify Consultant of other products or product lines for special emphasis. Such notification shall be issued through the office of Vice President - International, GDC.

5. AVAILABILITY TO GDC

Consultant shall make his services available to GDC throughout the term of this Agreement. Consultant shall at no time perform such services for or represent any party whose interests conflict or are competitive with the product lines of GDC specified (or hereafter specified) in paragraph 4 above. If Consultant wishes to perform consulting services for any other person or organization during the term of this Agreement, Consultant shall furnish GDC the name and address of each such person or organization, inform GDC of the general character of such consulting services, and receive GDC's agreement thereto prior to Consultant accepting such undertaking. In the event Consultant undertakes such obligations without prior GDC agreement, GDC may, at any time and without limitation of any other rights GDC may have, terminate this Agreement by notice to Consultant specifying the effective date of termination.

6. COMPENSATION

GDC shall pay to Consultant:

a. For advisory services to be rendered pursuant to paragraph 1 hereinabove, a base fee of U. S. $1,000.00 per month. Further Consultant shall be responsible for and pay any and all expenses related to the advisory services provided herein including salaries of assistants, clerical, and secretarial help Consultant deems necessary or desirable, rent, utilities, and necessary transportation and travel expenses within the Territory. As compensation for such expenses, Consultant shall be entitled to an overhead charge of 150% of the base fee, namely, U. S. $1,500.00 per month. The total of the base fee and overhead charge, namely, U. S. $2,500.00, shall be paid monthly. Additionally, when expressly authorized in advance, in writing, by GDC, Consultant shall be reimbursed for reasonable and actual travel expenses outside the Territory upon presentation of proper receipts and invoices.

b. For support facilities and services to be provided pursuant to paragraph 2, a fee of U. S. $3,400.00 to be paid monthly to Consultant for each calendar month such support facilities and services are provided. Additionally, Consultant shall be reimbursed actual costs for communication services described in paragraph 2 (i)(b) hereinabove and, when expressly authorized in advance actual costs of translation, printing, charting, and publication described in paragraph 2 (ii)(b) hereinabove. These additional costs shall be paid monthly upon presentation of proper receipts and invoices. GDC may, at any time and at its sole option, terminate the support facilities and services by notice to Consultant thirty (30) days prior to the date of such termination. Termination of these support facilities and services shall not be construed as a termination of this Agreement nor shall it release Consultant from any other obligations hereunder.

7. REPORTS OF WORK

Consultant shall make immediate reports to GDC on all matters time-sensitive in nature. In addition, at the sole option of GDC, Consultant may be required to submit written monthly reports to GDC, making full disclosure of all services performed during the preceding month pursuant to this Agreement. Consultant shall from time to time, at the request of GDC, and, in any event, upon expiration or termination of this Agreement, deliver to GDC all working papers and other documents and materials that have been prepared or developed by Consultant or made available to Consultant in connection with performance of services under this Agreement. All Reports of Work will be sent to the Director - Far East, GDC with a copy to Vice President - International, GDC.

8. CONFIDENTIAL NATURE OF WORK

Consultant shall not, during any part or after the term of this Agreement, divulge to any party other than GDC officers (or such other parties as a GDC officer shall designate) or, except in the performance of this Agreement, make any use of information or knowledge relating to (i) any facilities or services which Consultant shall provide or (ii) other business of GDC or any of its related companies, divisions, subsidiaries, or suppliers, which Consultant shall have obtained during the term of this Agreement and which shall not be generally known.

9. NATURE OF RELATIONSHIP

In performing any services pursuant to this Agreement Consultant shall act as an independent consultant and not as an employee, agent, or representative of GDC. Consultant shall not enter into any agreements or incur any obligations on behalf of GDC, or commit GDC in any manner whatsoever, without the prior written consent of GDC.

10. TERMINATION

a. Either party hereto upon giving a thirty (30) days' notice, may terminate this Agreement.

b. Either party hereto, at any time, may also terminate this Agreement by giving the other party notice of the reasons therefor as follows:

(i) If the other party enters bankruptcy (破産 [p'asan]), composition (和議 [hwaŭi]), company reorganization (會社整理[hoesa chŏngni]), liquidation(淸算 [ch'ŏngsan])proceedings or becomes insolvent due to its inability to pay its debts as they mature; or

(ii) If either party breached any of the terms, provisions, or conditions of this Agreement.

c. Consultant's obligations pursuant to paragraph 8 hereinabove shall survive any termination or expiration of this Agreement.

d. Any termination pursuant to paragraph 5 hereinabove or this paragraph 10 or expiration pursuant to paragraph 3 hereinabove shall not release or discharge any obligation of either party that shall have accrued prior to the effective date of such termination or expiration.

e. If GDC shall terminate this Agreement pursuant to paragraph 10a hereinabove, GDC and Consultant may agree, following their review of any request submitted by Consultant within sixty (60) days after notice of termination, upon the whole or any part of the amount requested by Consultant to be paid to Consultant by reason of the termination thereunder, which amount shall be for any reasonable cancellation charges thereby incurred by Consultant and any reasonable loss upon outstanding commitments for personal services which Consultant is unable to cancel; provided, however, that in connection with any outstanding commitments for personal services which Consultant is unable to cancel, Consultant shall have exercised reasonable diligence to divert such commitments to his other activities and operations.

11. LAWS AND REGULATIONS

Consultant shall abide by all applicable laws and regulations of the United States of America and the Republic of Korea, and shall abide by all applicable security regulations of GDC.

12. FORCE MAJEURE

The failure of either party hereto to perform any obligation under this Agreement or to be prompt in the performance of the terms and conditions herein by reason of acts of God, acts of government, wars, civil disturbance, strikes, accidents in transportation or other cause beyond its control shall not be deemed a breach of this Agreement.

13. ASSIGNMENT

Without first obtaining the prior written consent of GDC, Consultant shall not assign or transfer, all or any part of this Agreement, or any of Consultant's rights or obligations hereunder (including, but not limited to, the right of Consultant to receive any fees hereunder.)

14. ENTIRE AGREEMENT, PAROLE OR EXTRINSIC EVIDENCE, WAIVERS AND SEVERABILITY

a. This written agreement together with any written amendments hereof, constitutes the entire agreement between the parties relating to the subject matter herein; it is the final expression of the agreement between the parties.

b. Terms included herein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement but may be exlained or supplemented, if required, by:

(i) Subsequent course of dealing or performance; and

(ii) Evidence of consistent additional terms except where this written agreement is a complete and exclusive statement of the terms agreed upon. No change in, addition to, or waiver of the terms and provisions herein shall be binding upon either party unless approved by it in writing.

c. The failure by any party to exercise or enforce any of the terms or provisions of this Agreement shall not constitute or be deemed a waiver of that party's right thereafter to enforce each and every term and provision of this Agreement.

d. Should a court of law or arbitrator hold that one or more of the provisions in this Agreement is invalid, illegal, or unenforceable, such a decision will not affect the enforceability of the other provisions.

15. ARBITRATION

a. All disputes arising in connection with the present agreement shall be finally settled by arbitration. Arbitration to be held outside the United States of America shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, unless by written agreement the parties adopt the Rules of the American Arbitration Association. Arbitration to be held in the United States of America shall be conducted in accordance with the Rules of the American Arbitration Association, unless by written agreement the parties adopt the Rules of Arbitration of the International Chamber of Commerce.

b. Judgment upon the award rendered may be entered in any Court having jurisdiction or application may be made to such Court for a judicial acceptance of the award and an order or enforcement, as the case may be.

16. ENFORCEMENT COSTS

The parties agree that the unsuccessful party shall pay and discharge all reasonable costs, attorney's fees and expenses (including but not limited to the cost of litigation (訴訟費用 [sosong biyong]) that are incurred by itself and by the successful party in enforcing this Agreement.

17. NOTICES

All notices and reports, which are or may be required to be furnished under this Agreement by either of the parties to the other, shall be in writing and shall be effective, unless otherwise provided, when either served by personal delivery, or deposited, postage prepaid, in the registered airmail, addressed to the addressee at the address first shown above, or to such changed address as the addressee shall have specified by prior notice.

18. GOVERNING LAW AND LANGUAGE

This Agreement shall be governed by and interpreted and construed in accordance with the substantive law (実質法 [silchilbŏp]) of the Republic of Korea and the English language version of this Agreement shall be controlling.

19. EFFECTIVE DATE

The effective date of this Agreement shall be 1st day of January, 1977.

BUYEON COMPANY, LIMITED	**GENERAL DYNAMICS CORPORATION**
By E. Y. Yoon	By
Title President	Title [illegible]
Date 10. Jan. 1977	Date [illegible]

GENERAL DYNAMICS

Pierre Laclede Center, St. Louis, Missouri 63105

1 February 1976

Agreement by and between General Dynamics Corporation
having its principal executive offices at
Pierre Laclede Center, St. Louis, Missouri, U.S.A. (GDC)
and Eung Yul Yoon
having offices at 449-2, Pyongchang-Dong, Chongro-ku,
Seoul, Korea (Consultant).

In consideration of the mutual agreements herein contained, the parties hereby agree as follows:

1. Services to be Rendered. Consultant shall serve as an advisor to GDC for the territory of the Republic of Korea (Territory). Consultant shall provide:

   a. Reports on the current situation, problems, trends, and Consultant's forecasts, both long and short-term, regarding the political and economic situation in the Territory,

   b. Analysis of the probable impact of such trends which might influence the current business and products of GDC and the development of new products and opportunities for expansion or growth of GDC business in the Territory,

   c. Analysis of GDC's planned marketing programs as well as the effectiveness of GDC's current marketing programs and Consultant's advice for improvements, and

   d. Any clarifying explanations or commentaries requested by GDC to assist GDC in understanding and interpreting the services performed and the reports furnished.

2. Term of Appointment. Subject to paragraphs 4 and 9, these services shall be provided for a term of one year from date of execution of this Agreement by both parties. This term may be extended by GDC, at its option, for an additional one year, by notice in writing, at least thirty (30) days prior to the date of such expiration of this Agreement.

3. Scope of Effort. Consultant's efforts shall be initially directed to the Standard Missile, FPS Radar Modification and Air Combat Fighter product lines. From time to time GDC shall notify Consultant of other products or product lines for special emphasis. Such notification will be through the office of Vice President - International.

4. Availability to GDC. Consultant's services shall be available to GDC throughout the term of this Agreement. Consultant shall at no time perform such services for or represent anyone whose interests conflict or are competitive with the product lines of GDC specified (or hereafter assigned) in paragraph 3 above. If Consultant wishes to perform consulting services for any other person or organization during the term of this Agreement, Consultant shall first furnish GDC the name and address of each such person or organization and inform GDC of the general character of such consulting services and receive GDC agreement thereto prior to Consultant accepting an obligation. In the event Consultant undertakes such obligations without prior GDC agreement, GDC may, at any time and without limitation of any other rights GDC may have, terminate this Agreement by giving Consultant notice in writing specifying the effective date of termination.

5. Compensation. GDC shall pay to Consultant, for services performed hereunder, a base fee of U.S. $1,000 per month. Further, Consultant shall be responsible for and pay any and all expenses related to the services provided herein including salaries of assistants, clerical and secretarial help Consultant deems necessary or desirable, rent, utilities and necessary transportation and travel expenses within the Territory. As compensation for such expenses, Consultant shall be entitled to an overhead charge of 150% of the base fee. The total of the base fee and overhead charge (U.S. $2,500) shall be paid monthly. Additionally, when expressly authorized in advance, in writing, by GDC, Consultant shall be reimbursed for reasonable and actual travel expenses outside the Territory upon presentation of proper receipts and invoices.

6. Reports of Work. Consultant shall make immediate reports to GDC on all matters time sensitive in nature. In addition, Consultant shall submit written monthly reports to GDC making full disclosure of all services performed during the preceding month pursuant to this Agreement. Consultant shall from time to time at the request of GDC and, in any event, upon expiration or termination of this Agreement, deliver to GDC all working papers and other documents and materials that have been prepared or developed by Consultant or made available to Consultant in connection with performance of services under this Agreement. All Reports of Work will be sent to the office of Director - Far East with a copy to Vice President - International.

7. Confidential Nature of Work. Consultant will not, during or after the term of this Agreement, divulge to anyone other than GDC officers (or such other persons as such officers shall designate) or, except in the performance of this Agreement, make any use of information or knowledge relating to (a) any services which Consultant shall provide or (b) other business of GDC or any of its divisions, subsidiaries, or suppliers, which Consultant shall have obtained during the term of this Agreement and which shall not be generally known.

8. Nature of Relationship. In performing any services pursuant to this Agreement Consultant is acting as an independent consultant and not as an employe, agent, or representative of GDC. Consultant shall not act as GDC agent or enter into any Agreements or incur any obligations on GDC behalf, or commit GDC in any manner whatsoever, without prior written consent.

9. Termination.

(a) Either party, upon giving a thirty (30) day notice in writing, may terminate this Agreement.

(b) This Agreement may also be terminated at any time by the Consultant or GDC in the event that either party shall be, or become, insolvent, or in the event that either party breaches any of the terms, provisions, or conditions of this Agreement.

(c) Consultant's obligations pursuant to paragraph 7 hereof shall survive any termination or expiration of this Agreement.

(d) Any termination pursuant to paragraph 4 or this paragraph 9 or expiration pursuant to paragraph 2 hereof shall not release or discharge any obligation of either party that shall have accrued prior to the effective date of such termination or expiration.

10. Laws and Regulations. Consultant shall abide by all applicable laws and regulations of the United States of America and the Republic of Korea, and shall abide by all applicable security regulations of GDC.

11. Assignment. Without first obtaining the prior written consent of GDC, Consultant shall not assign or transfer, all or any part of this Agreement, or any of Consultant's rights or obligations hereunder (including but not limited to the right of Consultant to receive any fees hereunder).

12. Governing Laws. This Agreement shall be governed by and interpreted and construed in accordance with the laws of the State of Missouri of the United States of America excluding its conflict of law rules.

13. Entire Agreement. This Agreement constitutes the entire Agreement between the parties hereto with respect to the subject matter hereof, and no written or oral understandings or representations predating the date hereof shall be of any effect. Except as otherwise provided herein, this Agreement may not be varied, amended, or supplemented except by written instrument executed by both parties hereto concurrently with or after the execution of this Agreement. Each party reserves the right to disclose to others the provisions of this Agreement.

GENERAL DYNAMICS CORPORATION

BY

DATE 10, Feb. 1976

TITLE Vice Pres.

DATE 30 January 1976

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SUMMARY OF PYMTS TO BUYEON

MONIES PAID TO BUYEON BY GDIC (Corporate International):	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Total All Years
(a) Consultant Retainer Fee	$27,500.00	$30,000.00	$60,000.00	$60,000.00	$119,999.96	$99,999.96	$324,999.96	$249,999.96	$249,999.96	$62,499.99	$1,284,999.79
(b) Fee for Logistic/Administrative Support	$0.00	$26,300.00	$39,600.00	$39,600.00	$118,440.00	$128,520.00	$128,520.00	$21,420.00	$0.00	0	$502,400.00
(c) Other Reimbursable Expenses	$0.00	$8,826.00	$9,201.00	$13,929.00	$33,150.79	$5,270.00	$18,626.55	$3,179.71	$19,893.48	$0.00	$112,076.53
(d) Reimbursement for Actual Expenses Incurred by GD Personnel in Korea	$0.00	$8,346.00	$8,893.00	$12,619.17	$17,427.83	$24,101.17	$22,233.99	$4,390.98	$0.00	$0.00	$98,012.14
Subtotal	$27,500.00	$73,472.00	$117,694.00	$126,148.17	$289,018.58	$257,891.13	$494,380.50	$278,990.65	$269,893.44	$62,499.99	$1,997,488.46
Monies Paid or Owed to Buyeon by Stromberg-Carlson for:											
(a) Rural Trial DMO					$88,826.00	$52,406.00					$141,232.00
(b) Morning Calm							$122,663.00*	$5,295.00 *			$127,958.00
Monies Paid to Buyeon by Fort Worth for:											
(a) Air Defense Support Fees					$55,400.00	$41,696.00	$41,696.00	$41,696.00	$20,853.00		$201,341.00
GRAND TOTAL	$27,500.00	$73,472.00	$117,694.00	$126,148.17	$433,244.58	$351,993.13	$658,739.50	$325,981.65	$290,746.44	$62,499.99	$2,468,019.46

*The sale of Stromberg-Carlson took place in 1982. Any obligation remaining under this sale became UT Lexar's.

Mr. Dingell. Were these charged to the Federal Government as allowable expenses?

Mr. MacDonald. Mr. Chairman, normally it would not be. We don't believe these were charged to the Government contracts, but we will have to check it to be sure.

Mr. Dingell. As a matter of fact, the committee has information that these were charged to the Federal Government, and that they were questioned by the DCAA in 1982.

Mr. MacDonald. That may be. I will check it and find out. But they should not be.

Mr. Wyden. Mr. Chairman.

Mr. Dingell. If this is a 5- or 10-year contract, it means that over the 5-year period you paid him about $1,250,000; or if it is 10 years, you paid him about $2½ million plus whatever more you paid to Buyeon.

Mr. MacDonald. I didn't know we paid anything more to Buyeon.

Mr. Dingell. The Chair is intruding on the time of the gentleman.

Mr. Wyden. We have a substantial list of consultants that were paid by General Dynamics for something. Again, it appears that General Dynamics is billing the taxpayer, and I think the staff ought to interview relevant General Dynamics executives with knowledge of these foreign consultants concerning violations of the Foreign Corrupt Practices Act.

Mr. Dingell. Let me inquire. We have here a list of these persons who are on the payroll of General Dynamics. This is an audit report No. 3201-4A140001: ELUL Technologies, Ltd., $120,000; Southland Development Ltd., $44,404; Lai Fu Trading Ltd., $59,512; Arthur Andersen, $5,388; Lily L. Durr, $15,100; Mansour Corp., $150,000; Salah Menawi, $136,817; Altawil Trading Enterprise, $50,000; Proyectos Aeronauticos Vicle, $120,000; Dimitri G. Yannacopoulas, $196,000; Yushiro Goh, National Sangyo, $30,000; Buyeon Co., Ltd., $320,793; Ivor D. Crozier, $28,500; Avionics Co., $54,000; International Liaison, $40,000; R.H. Schlidt, $1,902. A total in the period covered by the audit of $1,372,416. And our information is that all of these are covered, rather are paid as allowable account items by the Federal Government.

Mr. Wyden. Mr. Chairman.

Mr. Lewis. Was that the 1982 list, Mr. Chairman?

Mr. Dingell. Let's see——

Mr. Lewis. They have not been paid. We know that, because they have been questioned.

Mr. Dingell [continuing]. These were charged to the Government.

Mr. Lewis. Were they submitted? Is that the point?

Mr. Dingell. Here it says Buyeon Ltd. was reimbursed $312,593 for expenses and fees incurred as General Dynamics' adviser in the Republic of Korea, and $8,200 for expenses incurred in the fiscal year 1981 Paris Air Show.

Mr. Lewis. If you have a question item under DCAA, until the overhead account is settled, there has been no payment. I'm sure you understand that. The progress payments are held back, in our judgment, and are far greater than any of these questioned bills.

Mr. **Wyden**. Mr. Lewis, the issue is, he would be getting this money, $320,000, on top, as far as I can tell, of a salary of $250,000 a year.

Mr. **Lewis**. I don't think that is correct, Mr. Wyden. I'm not—as I understand, the $320,000—he was making some lesser number through 1981, July. We had a big battle with him and didn't get the new salary rationalized until the date of that piece of paper, and we retroactively agreed to go back to the previous termination date, so he has part of 2 years in 1 year.

Mr. **Wyden**. Well, it appears to us——

Mr. **Lewis**. Our records are clear, and we will be very pleased to present them to the committee on each of these years and each of what our contracts are.

Mr. **Wyden** [continuing]. We have a number of records——

Mr. **Dingell**. Without objection, the record of these items will be inserted in the record.

[The information referred to follows:]

Audit Report No. 3201-4A140001

Pool	Questioned Amount	Notes
Residual		
Najeeb E. Halaby	$ 9,000	a.
Avionics Company	18,000	b.
Neilson McCarthy	4,482	c.
Total	$ 31,482	
Industrial Relations		
Associates for International Research, INc. (AIRINC)	$ 5,284	d.
Business Planning		
Najeeb E. Halaby	$ 22,000	a.
International Liaison	20,000	e.
Total	$ 42,000	
International		
ELUL Technologies, Ltd.	$ 120,000	f.
Southland Develop. Limited	44,404	g.
Lai Fu Trading Co., Ltd	59,512	h.
Arthur Andersen & Co.	5,388	i.
Lily L. Durr	15,100	j.
Mansour Corp.	150,000	k.
Salah Menawi	136,817	l.
Altawil Trading Enterprise	50,000	m.
Proyectos Aeronauticos Vicle	120,000	n.
Dimitri G. Yannacopoulas	196,000	o.
Yushiro Goh, Nat'l Sangyo	30,000	p.
Buyeon Co. Limited	320,793	q.
Ivor D. Crozier	28,500	r.
Avionics Company	54,000	s.
International Liaison	40,000	e.
R.H. Schlidt	1,902	t.
Total	$1,372,416	

a. Najeeb E. Halaby provides services in connection with the organization and implementation of a marketing program by the company in the Middle East. Mr. Halaby advises General Dynamics on the effective and lawful means of doing business in various countries. Mr. Halaby, former President of Pan American Airlines, is the father-in-law of the King of Jordan.

b. Avionics Company is the sales representative for General Dynamics in Greece.

c. Neilson McCarthy MacIntosh Parkes is the public relations firm employed by General Dynamics in Australia.

d. The Association for International Research, Inc. (AIRINC) provides services relating to individual allowances for employees stationed overseas.

e. International Liaison assists in the examination and evaluation [illegible] needs and requirements for the United States and foreign Air Forces. The contractor charges consulting services in relation to needs of U.S. Air Force to Dept. 112/Residual Pool and services in conjunction with the needs of foreign air forces to Dept. 450/International Pool.

f. ELUL Technologies is the exclusive consultant to General Dynamics for Israel.

g. Southland Development Limited was hired to make a survey of market and business opportunities in the People's Republic of China.

h. Lai Fu Trading Company provided analysis of planned marketing programs and the effectiveness of current marketing programs in Taiwan, Republic of China.

i. Arthur Andersen & Co. provided professional services in connection with the audit of General Dynamics International, Tokyo Office

j. Kily L. Durr provides consulting services for the Republic of China.

k. Mansour Corporation was hired to help General Dynamics seek business opportunities in Saudi Arabia.

l. Salah Menawi assisted in survey of the Gyptian market and in seeking business opportunities in Egypt.

m. Altawil Trading Enterprises provides sales support to cultivate markets and sales prospects in the Kingdom of Saudi Arabia and Middle Eastern Gulf States.

n. Proyectos Aeronauticos Vicle was hired to cultivate markets and sales prospects for General Dynamics in Venezuela.

o. Dimitri G. Yannacopoulas was paid to serve as a sales representative for General Dynamics in Greece.

p. Yushiro Goh serves as economic advisor to General Dynamics for Japan and other countries in the Western Pacific Basin.

q. Buyeon Limited was reimbursed $312,593 for expenses and fees incurred as General Dynamics' advisor in Republic of Korea and $8,200 for expenses incurred at the FY 81 Paris Air Show.

r. Ivor D. Crozier provides certain advisory and support services to General Dynamics in the United Kingdom.

s. Avionics Company is the sales representative for General Dynamics in Greece.

t. Mr. Schlidt's household goods were shipped from Bonn, Germany to Hunstville, Alabama. Mr. Schlidt personally made the shipping and insurance arrangements through the American Embassy in Bonn. General Dynamics paid the shipping and insurance costs which totaled $12,027. Upon the goods arrival in the U.S., they were stored at White Mayflower in Huntsville, Alabama. GD again paid the storage and insurance costs of $935. The General Dynamics Corporate Insurance Dept. did not become involved in any of the arrangements.

After the goods were damaged in the flood in Huntsville, Alabama, Mr. Schlidt filed two insurance claims. One claim was against White Mayflower and one claim was against the German shipping firm who had insured the good during shipping the storage.

With the assistance of GD's legal counsel in Bonn, Germany, Dr. Roether, Mr. Schlidt settled with the German firm. Dr. Roether's legal fees, which GD had agreed to pay, were at Mr. Schlidt's insistence included as part of that insurance settlement.

Mr. Schlidt's claim against White Mayflower was settled through the efforts of the Huntsville law firm of Lammons, Bell, and Sneed. Because of Mr. Schlidt's desire to settle the claim out of court as quickly as possible, Mr. Schlidt did not request the legal expenses be covered in the settlement. Thus when Lammons, Bell, and Sneed received Schlidt's total claim settlement, they reduced it by their legal fees of $1,902. General Dynamics in turn reimbursed Mr. Schlidt the $1,902 legal fees.

We have questioned the $1,902 as personal expense. As the contractor reimbursed Mr. Schlidt for all expenses including insurance acquired by the employee relating to the move, we believe any loss and related legal fees should be recovered from the insurance company by the employee.

Furthermore, we could find no evidence that the employee reimbursed General Dynamics for the very high legal expenses incurred by Dr. Roether, a GD employee, which were included in the German insurance company settlement to the employee.

9. Allocability. The contractor's representative incurred expenses of $1,143 on trip to Dayton, Ohio for the Aviation Hall of Fame ceremony. We have questioned the expenses as not allocable to Government contracts per requirements of DAR 15-201.4.

10. First Class Air Fare. DAR 15-205.46(f) states that the difference in cost between first class accommodations and less than first class air accommodations is unallowable except when less than first class accommodations are not reasonably available to meet necessary mission requirements. The contractor did not provide evidence that first class accommodations were necessary to meet mission requirements. Therefore, we have questioned the difference between first class air fare and less than first class air fare as follows:

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Mr. Dingell. We are going to request that you submit to us the necessary information on your overseas consultants and whether they were charged as allowable expenses to the Federal Government for the year in question.

Mr. Lewis. Yes, sir.

Mr. Dingell. Also we will request justification for the amounts, and why the amounts were paid.

Mr. Wyden. One last question, Mr. Chairman.

What appears to me to be clear is that we have a whole host of questionable payments being made overseas. And, Mr. Lewis, I have here in our file—and I would be happy to show it to you—a copy of a $220,000 check endorsed by General Yoon dated November 19, 1982, and it was deposited in a Paris bank account pursuant to a change in arrangements.

Would you have any——

Mr. Lewis. Pursuant to what?

Mr. Wyden. Well, we have another memo on that written by M.E. Carver to E.F. Guckes:

> Please note the change in form of payment to Buyeon; both checks are a combination of the two figures, if you prefer to be mailed to Buyeon in Seoul via DHL. We have been sending the consulting fee payment via transfer. If you return the checks to us, we will see they are properly mailed via DHL.

Mr. Lewis. DHL; that is like Federal Express. That is all that is.

Mr. Wyden. OK.

Mr. Lewis. I know nothing of that. But, Mr. Wyden, I don't think that your generalization is accurate. I think we do a tremendous amount of business around the world. I think we save a great deal of money in using people who know the country, know the customs and understand the countries, and we feel we pay them only a reasonable amount for services.

Mr. Dingell. Would the gentleman yield?

Mr. Wyden. I would be willing to yield, of course, to the Chairman.

I just want to make clear that what I asked for and what the Chairman asked for was the list of company foreign consultants being paid by General Dynamics for something, very frankly, that I think is questionable and shouldn't be billed to the taxpayer, things like the Paris Air Show and similar kinds of things, without some very explicit statement of how it benefits the taxpayer.

Mr. Lewis. I believe the Paris Air Show is totally disallowed.

Mr. Wyden. That's not at all clear to us. We have heard about progress payments and a number of other things that make it clear that these things are not, by any means, settled.

I would be happy to yield to the chairman.

Mr. Dingell. The Chair thanks the gentleman.

The Chair's curiosity lies in the fact of whether the taxpayers paid these sums as allowable items or whether they were paid by General Dynamics. I have no objection to General Dynamics doing business anywhere and would actively encourage you do that.

The question is, were these items, which were properly charged against the taxpayers, a part of your contracting business? We only got these papers Friday night, so we are a little bit hard-put to evaluate all the facts that might be there. But our information is that the items referred to and a number of others were chargeable to the taxpayers as proper expense accounts.

If this is proper, Mr. Lewis, and can be so established, I would defend you to my last breath. But if it's not, then I have to be equally critical. I'm sure you understand the problem that I am confronted with.

Mr. WYDEN. The reason that is so important is the 1975 memo which states very explicitly all these ways that the company might employ to do business overseas.

I think the chairman's point is it, in a nutshell. If we see these documents and find that these matters, like the Paris Air Show and the like, are being paid for by the company, so be it. But, given this 1975 memo which details so specifically ways to shroud these payments overseas, we are going to need a lot more information.

Thank you, Mr. Chairman.

[The following document was submitted:]

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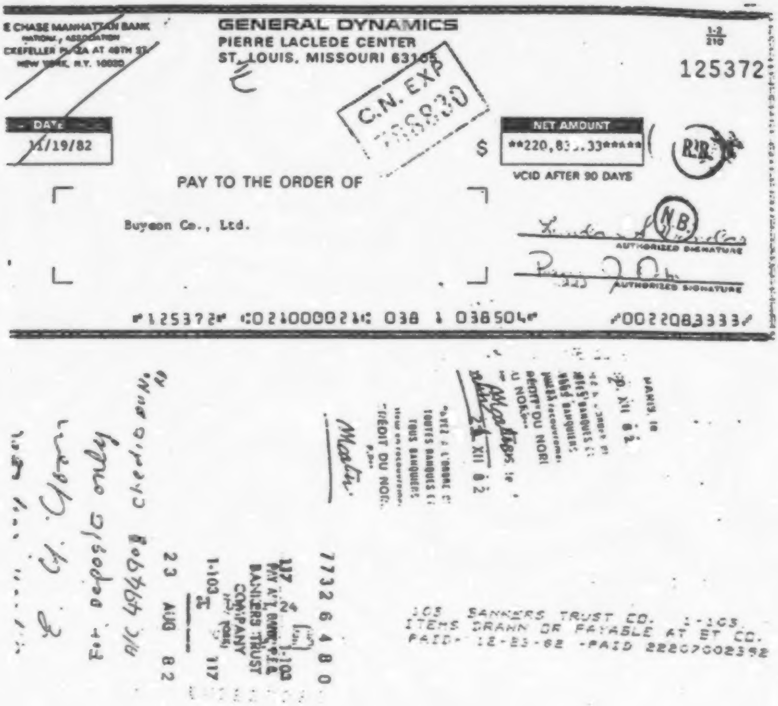
. GENERAL DYNAMICS PRIVATE INFORMATION



E CHASE MANHATTAN BANK
NATIONAL ASSOCIATION
CKEFELLER PLAZA AT 48TH ST.
NEW YORK, N.Y. 10020

GENERAL DYNAMICS
PIERRE LACLEDE CENTER
ST. LOUIS, MISSOURI 63105

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125372

C.N. EXP

DATE
11/19/82

NET AMOUNT
$ **220,83_.33*****

VOID AFTER 90 DAYS

PAY TO THE ORDER OF

Buyeon Co., Ltd.

AUTHORIZED SIGNATURE

AUTHORIZED SIGNATURE

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GENERAL DYNAMICS PRIVATE INFORMATION

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Mr. **Dingell**. The time of the gentleman has expired.

The Chair recognizes the gentleman from Texas, Mr. Bryant.

Mr. **Bryant**. Mr. Lewis, Mr. Veliotis left your company about June 1982; is that correct?

Mr. **Lewis**. May, I think.

Mr. **Bryant**. May 1982?

Mr. **Lewis**. Well, yes.

Mr. **Bryant**. Somewhere in there?

Mr. **Lewis**. Yes.

Mr. **Bryant**. What were the circumstances of his leaving?

Mr. **Lewis**. He—the official circumstances were he retired.

Mr. **Bryant**. He retired from the company?

Mr. **Lewis**. Yes.

Mr. **Bryant**. But there has been some difficulty surrounding him since he left there; is that not correct?

Mr. **Lewis**. Mr. Veliotis called me in some time I believe in early May, and he had been on this kick before, that he was very disappointed in how the Electric Boat yard was going under tovar—he was sick, he was all these things, and he wanted to take retirement, as he had indicated he might in earlier times. And he did then say, "I would like to retire and get on out and go back to Greece and take care of my mother's estate."

Mr. **Bryant**. The fact is, he is a fugitive from a Federal kickback scheme inquiry; isn't that correct?

Mr. **Lewis**. We did not know that at that time.

Mr. **Bryant**. But, I mean, that is the case as you know it now? Isn't that correct?

Mr. **Lewis**. As we later know, he was, yes. He was invited to testify, which he refused to do, and then later indicted.

Our first real—we were advised he was a target, I believe, after that.

Mr. **Bryant**. I assume that he was not—did he continue with the status of a person with a top secret classification, or did he continue to have his security clearance?

Mr. **Lewis**. I cannot be absolutely authoritative, but I can't believe that he did.

Mr. **Bryant**. Was it the practice of your company to continue to supply him with classified documents?

Mr. **Lewis**. No, sir.

Mr. **Bryant**. It was not?

General Dynamics produced a document entitled "General Dynamics, Electric Boat Division, Third Quarter 1982 Performance Review" and another document entitled "General Dynamics, Electric Boat Division, 1983 Proposed Operating Plan."

Are you familiar with those documents?

Mr. **Lewis**. Yes.

Mr. **Bryant**. I will show you——

Mr. **Lewis**. Broadly.

Mr. **Bryant** [continuing]. I will show you a copy of the front page of one of them here; it was produced in October 1982. The other one I mentioned was produced in November 1982.

Now, Mr. Veliotis evidenced possession of those documents as late as March 1983, which would have been approximately 5 to 6 months after he left the employ of your company.

Are you aware of that?

Mr. Lewis. I'm not—I don't believe I have heard that he said he got them in March. I have never known—we get—it seems to be the last ones on the distribution list of an awful lot of material that comes to this committee and to the press.

Mr. Bryant. I think there is probably good reason for that. We would like to ask you the questions before there is an opportunity to decide what the answer is going to be.

Mr. Lewis. Well, do you think that is fair?

Mr. Bryant. I certainly think any other way of proceeding would be inadvirsable under the circumstances.

Mr. Lewis. What circumstances?

Mr. Bryant. Circumstances being that you are being accused of quite a number of misdeeds.

Mr. Lewis. I'm not being accused of any misdeeds.

Mr. Bryant. Well, I have accused you of some, and so have some of the other Members up here.

But be that as it may, my question to you is, How did Takis Veliotis, a guy who is fugitive from an investigation of kickbacks and other alleged wrongdoing, got a copy of a classified document that was produced, produced 4 months after he left the employ of your company?

Mr. Lewis. First of all, it was not a classified document. It was a document that was labeled "Company Private," I believe. And how he got it, I do not know. And we are working very hard to find out how he got it. We are working with the NIS and DIS in every way we can to find out whether he still even today has access.

Mr. Bryant. Well, I will——

Mr. Lewis. It's a very serious problem for us, and I do not underplay that at all.

Mr. Bryant [continuing]. With regard to whether or not it's classified, I would just read to you a portion of a letter—

Mr. Lewis. I hope you won't read the classified letter.

Mr. Bryant. I'm going to read to you the portion that has been in the newspaper. I think that is enough.

The fact of the matter is that—let me ask you a question right there. You say this isn't a document. Why would a letter written about this document be classified if it's not a classified document—before I read it to you?

Mr. Lewis. I can explain to you the circumstances that the document in question, which was the first one, was the one that was viewed seriously. It included a photograph, and in that photograph it was the judgment of the people who prepared that report and put it together that it was not—should not have been classified; that it was appropriate to be nonclassified.

The Sea Systems Command, when they saw that document some weeks ago, took the position—and that was Admiral Fowler's letter—that the photograph should have been classified. And, of course, it is now. But it was still a matter of very strong position that that was no longer a classified document—photograph.

The document, of course, would have to reflect the most sensitive component of the document. The Navy works very closely with us on these security issues, and there are ground rules laid out as to what constitutes a classified requirement every step of the way, and we try very, very hard—and I would say with extremely high success—in maintaining the security of all of the programs on which we are working.

And this is a real difference of opinion, and I will say to you that I understand that still today is a great difference of opinion within the Navy on this issue. But it's still normally whoever is the most sensitive is the way this should be classified.

Mr. BRYANT. You know who Adm. E.B. Fowler is, I assume?

Mr. LEWIS. Yes.

Mr. BRYANT. There seems to be no debate within the Navy with regard to whether or not it is classified.

Mr. LEWIS. Absolutely; that is the difference of opinion that I referred to, and it is very strong.

Mr. BRYANT. You referred to a difference of opinion within the Navy. I'm not aware of any debate within the Navy as to whether these were or were not classified.

Mr. LEWIS. No; they were not classified as to whether they should have been or not.

Mr. BRYANT. Were or were not secret; put it that way.

Mr. LEWIS. Yes.

Mr. BRYANT. You said there was a difference, and I'm not aware of any difference. In fact, I have a letter from Admiral Fowler dated February 15 in which he makes it very clear to you that, in the opinion of the Navy, both documents should have been classified, and that they contain top secret information.

Mr. LEWIS. And they are classified.

Mr. BRYANT. They are classified?

Mr. LEWIS. Yes; classified now, yes.

Mr. BRYANT. I see.

Well, the question that I had for you was, how a document of this sensitivity, which I think you very cleverly suggest is not sensitive—yet, everybody else indicates it is—can get into the hands of somebody who has been gone from your company for 4 months?

Mr. LEWIS. I can't answer the question. And I think it's terrible. And we are doing our very best to find out where a leak exists, if it still does, or where—if the leak existed at the time you mentioned, in March of 1983.

Mr. BRYANT. You have been into this investigation for 40 days, I understand, and what I want to know is what have you found in the 40 days?

Mr. LEWIS. I don't know of the 40 days. I don't think we have found anything that we can point to—here is our mole, or here is Veliotis' buddy, or whatever.

Mr. BRYANT. Who is conducting your investigation?

Mr. LEWIS. It's being done by our security department and legal department.

Mr. BRYANT. Can you tell me the individual who is in charge of it?

Mr. LEWIS. Mr. Duesenberg, our general counsel.

Mr. BRYANT. Is he here today?

Mr. LEWIS. Yes; he is.

Mr. BRYANT. Which one is he?

Mr. LEWIS. Here [indicating].

Mr. **Bryant**. Could you hold your hand up so we can figure out which one you are?

Mr. **Duesenberg**. Right here.

Mr. **Bryant**. Since you are talking to him over your shoulder, why don't you ask him if he found out who did this, or not.

Mr. **Lewis**. Have you found out who did it?

Mr. Duesenberg says that—points out that this is still a classified issue, and we have responded to Fowler in a classified letter. But I think—so he doesn't think it's appropriate that we talk about a classified issue.

Now, I don't know——

Mr. **Bryant**. This has gone from an unclassified matter to a classified matter in about 10 minutes. It's interesting. I can't understand the——

Mr. **Lewis** [continuing]. It became a classified issue when Admiral Fowler decided that that picture, document, was classified; it's classified from there until it's changed.

Mr. **Dingell**. Would the gentleman yield? The Chair is prepared to make an observation.

Mr. **Bryant** [continuing]. Sure.

Mr. **Dingell**. The Chair advises that the committee will request the document referred to, either from you, Mr. Lewis, of General Dynamics, or we will make a similar requests to the Defense Department. We will receive it and not insert it in the record until such time as the question of the propriety and degree of its use can be resolved in appropriate discussions with the Defense Department.

Mr. **Bryant**. I didn't hear you, Mr. Chairman.

Mr. **Dingell**. The Chair observes that the document in question will be requested by the staff, either of General Dynamics or of the Defense Department, and that the document referred to will be held under the custody of the Chair and the committee until such time as its proper use has been decided upon in concert with the Defense Department through appropriate discussions between the Chair and the Defense Department.

The Chair recognizes the gentleman again.

Mr. **Bryant**. Mr. Lewis, don't you have to submit these documents to the Navy prior to their release?

Mr. **Lewis**. No.

Mr. **Bryant**. No? Never?

Mr. **Lewis**. Well, I don't know exactly how to say this. There are internal controls. And then when there are debates, doubts—there are rarely doubts, incidentally; this is a fairly well-understood, well-coordinated arrangement—but the Navy is definitely a part of this. And I think our posture is to lean over in the direction of classification, security classification, where in doubt.

In the opinion of the individual who classified that particular document, there was no doubt in his mind, and obviously that is not agreed to but the Navy has security—it's nothing willful about this, and there was nothing in there that excites anyone or there would be no value internally within our company in that report to justify sticking a classified photograph in an unclassified document.

I am confident it was—there was no unseemly reason for it. It was a judgment of our professional technical engineering people.

Mr. **Bryant**. Well according to Admiral Fowler, he had to write you about this same subject in June 1981; is that correct?

Mr. **Lewis**. He wrote a letter; yes.

Mr. **Bryant**. And what came of that?

Mr. **Lewis**. That we used a photograph that was taken of the boat at sea and put it in the Washington Post and the New York Times, or something like that, and which we take great exception to. If you will ask for the answer to that in your letter, you will find the opinion expressed there. That was a Rickovergram.

Mr. **Bryant**. I can only observe that the Navy's attitude toward this matter is quite a bit different than yours, based upon the correspondence and their oral representations.

Mr. **Lewis**. There is no question that Admiral Fowler disagreed with our evaluation of that photograph. No question.

Mr. **Dingell**. Without objection, the Chair will insert a properly expurgated copy of the letter signed by Admiral Fowler. The letter will be changed to remove the necessary portions of the document which will protect the national security, and that will be inserted.

[The information follows:]

DEPARTMENT OF THE NAVY
OFFICE OF LEGISLATIVE AFFAIRS
WASHINGTON, D. C. 20350

IN REPLY REFER TO
11 March 1985

Dear Mr. Chairman:

On Friday, March 8, 1985, Mr. Stockton of your staff telephoned directing on your behalf that a sanitized copy of Vice Admiral Fowler's letter to Mr. David Lewis, Chairman of the Board, General Dynamics Corporation, concerning security leaks at the Electric Boat Division, be delivered to the staff by close of business March 11. He also directed that the Navy provide an NIS investigator to the Subcommittee staff on Tuesday, March 12, 1985, to answer to the extent possible unanswered questions posed in your letter of February 19 on the same matter.

Please find enclosed a copy of VADM Fowler's letter to Mr. Lewis. That portion of the letter which is classified in the interests of national security pursuant to applicable law and regulation has been deleted. The Navy shares your concern that information properly classified and protected under the criminal code of the United States not be released to the media or the public; regrettably, as a side-by-side analysis with today's Washington Post article will reveal, some classified material from the letter has been divulged to the print media. That portion of the letter which is "highlighted" in yellow is considered to be of a business-sensitive nature and therefore we request that the Subcommittee not disclose those portions of the letter to the public.

I regret that we are unable to comply with your desire that we provide an NIS investigator to the Subcommittee staff to discuss ongoing investigations into apparent security breaches at the Electric Boat Division. In the first instance, the Naval Investigative Service is investigating at this time only pursuant to the specific request of the Department of Justice. Accordingly, the Department of Justice must be contacted to provide you with information concerning the ongoing investigation. Even were the NIS to be conducting a Navy investigation, we would still be unable to provide an investigator at this time while the investigation is still ongoing. This procedure is long standing Navy policy designed to protect against the possibility of compromising an ongoing investigation or subsequent action which might flow from the investigation.

I hope that the foregoing information is responsive to your request. We will continue to provide you with information to the maximum extent possible in connection with this ongoing investigation into General Dynamics.

Sincerely,

Dudley Carlson
DUDLEY CARLSON
Commodore, U.S. Navy
Chief of Legislative Affairs

Honorable John D. Dingell
Chairman, Subcommittee on
Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
Washington, D.C. 20515

DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
WASHINGTON, DC 20362-5101

IN REPLY REFER TO
15 FEB 1985

Mr. David Lewis
Chairman of the Board
General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 63105

Dear Mr. Lewis:

It has recently come to my attention that the Washington Post has obtained a series of documents which have no security markings but which contain classified material concerning the TRIDENT submarine program at Electric Boat Division.

[redacted]

Unauthorized release of this type of information is damaging to the national security.

The creation of the documents without proper security review and approval, as reflected by the absence of required classification markings, and their subsequent unauthorized release constitute a blatant disregard for and breach of security regulations and a willful violation of contract terms. Of particular concern is the fact that I was compelled to write you in June of 1981 with a similar complaint. A thorough investigation into the creation of these documents and their release is being conducted; I intend to take appropriate action when the results of the investigation are available.

A security review of the subject documents reveals that they contain National Security Information in accordance with Navy regulations and guidance which form part of the Electric Boat Division's contracts for work on nuclear powered submarines. Specifically, portions of the documents should have been classified "Confidential, National Security Information" in accordance with CG-RN-1, ERDA-DOD Classification Guide for the Naval Nuclear Propulsion Program dated January 1977 and OPNAVINST S5513.5A (Enclosures 37, 38, 55 and 57). The absence of the appropriate security legends on the

Classified by: OPNAVINST 5510.1G
Declassify on: OADR

documents is evidence of a failure of Electric Boat Division's security system and demonstrates a cavalier attitude towards the handling of national defense information. I would also note that the documents contain sensitive unclassified information pertaining to naval nuclear propulsion which your contract stipulates must be protected from unauthorized dissemination pursuant to NAVSEAINST C5511.32 of 27 January 1977.

Navy shipbuilding contracts obligate the shipbuilder to comply with requirements of the Contract Security Classification Specification, FORM DD-254. This specification includes appropriate guidance on information classification and security and clearly states that "no release of information relating to work under this contract shall be made without prior approval of the Naval Sea Systems Command (SEA 992, now OOD)." Instructions which are referenced in the Contract Security Classification Specification applicable to the submarine construction contracts being performed at your Electric Boat subsidiary address in great detail the required procedures for performing classification review, proper marking, and obtaining authorization for release of photographs of nuclear-powered ships and documents pertaining to naval nuclear propulsion work.

As you undoubtedly are aware, there are numerous administrative and statutory sanctions governing the compromise of classified information. DOD 5220.22-M, the Department of Defense Industrial Security Manual for Safeguarding Classified Information, implementing Executive Order No. 12356, allows for the revocation of individual or facility security clearances. Criminal sanctions under the Espionage and Internal Security Acts provide for significant fines and prison sentences. It is my understanding that a copy of the Electric Boat Division documents have been provided to the Criminal Division of the Department of Justice for appropriate action.

I request that you use your internal resources to make an additional full investigation of the circumstances surrounding the creation of the documents and their dissemination and report the results to me as well as provide an explanation and recommendation for steps you intend to take to prevent this from happening again.

Sincerely,

D. B. Fowler

Copy to:
DIS
SECDEF
SECNAV
OP-009
OP-02
OLA (Capt. Fister)
F. G. Tovar

bcc:
SEA 08
SEA 08B
NIS (Rich Quillin)
Capt. Fox
  (SUPSHIP Groton)
Supervisor of
Shipbuilding,
Conversion and
Repair

Mr. DINGELL. The letter, Mr. Lewis, expresses thorough-going outrage on the part of Admiral Fowler in connection with this matter.

Mr. LEWIS. There is no question about that.

Mr. BRYANT. I would observe that the Navy told this subcommittee that you are required to submit these photographs before they are printed. There is no circumstance under which you are able to do that without submitting them to that first, based on your contractual relationship with the Navy.

Do you dispute that?

Mr. LEWIS. Do I deny—sorry. What was the question? Do I deny that?

Mr. BRYANT. The Navy has indicated that you are required to submit these photographs to the Navy before they are released, in every circumstance.

Do you disagree with their representation to us?

Mr. LEWIS. No; I don't disagree with it. That was not my understanding. But I don't disagree with it.

Mr. DINGELL. The time of the gentleman has expired.

The gentleman from Ohio, Mr. Eckart.

Mr. ECKART. I thank the Chairman.

Mr. Lewis, one of the things that troubled me about Mr. Ashton's testimony that I would like to see maybe if you could set the record straight, apparently Mr. Ashton was a little bit of a whiz kid, fair-haired boy at General Dynamics; supervised a very successful program producing one of the hottest fighter planes in the world today; encouraged by you personally to join Electric Boat; did some remarkable work on his own that he presented to you personally.

What happened?

Mr. LEWIS. Well, your first part is quite accurate. I thought that Mr. Ashton had great potential in this company; great potential, period. We were looking for a replacement for Veliotis, a successor. And I think at one of our earlier times we talked about the difficult time we had even getting Veliotis clear and in that job.

Veliotis told me in his judgment there was nobody there suitable to replace him, and I agreed with him. As it turned out, a year or so later we did decide that Tovar was by that time suitable and did a good job. We wanted Jim Ashton to go up and learn that business and to become the chief engineer, which is the deputy general manager of engineering.

Right from the beginning, he got crosswise, not with Veliotis only but with all of his peers. And this issue of the letter of December 31 that I believe Mr. Schaefer asked about was not the first time we had heard of problems he was having up there with the people of Electric Boat. He somehow could never develop a working relationship that was suitable, in spite of all the encouragement and all the correction, or suggested correction, of his way of doing business that was done by people with whom he was in contact from the corporate office.

Mr. ECKART. When he met with you personally to review his analysis, did you advise him that he was transgressing the orderly progress on the corporate ladder?

Mr. LEWIS. No. I try not to get into that kind of thing, because one of the things he was alleged to have been saying was that he was there as a way station to the corporate office to take my job, and it was really undercutting Mr. Veliotis' authority. I was told, in his initial interviews with the people to whom he reported, he indicated that he was there only in his chief engineer's job, only as a time until he was ready to take over the general managership.

Now, that isn't really too good, and our people cautioned him on that. But that just horrified the people that worked for him and the people for whom he worked. And I think it's true, his statement is undoubtedly true, that he did wind up getting isolated there for a time. This is referred to in the letter which I hope you have seen, the letter from Mr. Veliotis, who is trying to get him—but you can't have someone coming in saying, "I'm just standing in the wings until Mr. Veliotis takes—gets out of the way so I can run the company; and I'm really reporting to Lewis, not to Veliotis, anyway."

Now, we tried to do these things and to bring a man along, instead of whacking him over the head, and trying to bring him along with counsel and advice. And he is a good man. His record to that date was good. But he wouldn't stay and do the job he was paid to do, and he——

Mr. ECKART. You seemed to have thrown him away rather peremptorily, don't you think? You knew your operation at Electric Boat was in trouble. Here was a guy who was trying to show you what was going on over there.

Mr. LEWIS. Well, at that time it was our opinion that we were coming out of the trouble of the welds and the steel, as was mentioned by him, and that we were going to underrun the 1985 804 settlement, which is what Mr. Ashton pointed out; and that we were going to run well under that situation prior to the 1979 time period.

Mr. Ashton did an awful lot of speculation about what happened ahead of time before he was there and after he was there, and so on, and that is his right. But it was a very, very disappointing affair from start to finish.

Mr. ECKART. Let me move over——

Mr. LEWIS. But I will say——

Mr. ECKART. Go ahead.

Mr. LEWIS [continuing]. Mr. Veliotis did want him up there.

Mr. ECKART. Obviously not well enough to have him take his job.

Mr. LEWIS. No. He wanted out. The facts are consistent. But something went wrong in-between. He really did want out. And during this time period I had had to take over the negotiations, like we were talking about on that tape, to get Veliotis out of the stream.

Mr. ECKART. Obviously, Mr. Veliotis knew he needed some time to get all his tapes edited properly, and he couldn't do that on company time.

Mr. LEWIS. I wish I could hear you better.

Mr. ECKART. Obviously, Mr. Veliotis needed additional time to get his tapes edited, and he couldn't do that as well on company time.

Mr. LEWIS. I guess.

Mr. ECKART. Let me ask Mr. MacDonald: On February 28 last, I asked you a question about an $18,000 country club membership. You said that, "I have a note to check on it as soon as I get home." Well?

Mr. MACDONALD. There was an $18,000 expense report. If it was charged or claimed against the Government, it has been withdrawn. It should never have happened.

Mr. ECKART. The DCAA confirmed to the subcommittee that it was charged, and I assume that will be in the $23 million you are going to pull back?

Mr. MACDONALD. Yes.

Mr. ECKART. While you are checking, Mr MacDonald, did you find the other $700,000 in social and country club fees that I pointed out billed to the Government between 1978 and 1983?

Mr. MACDONALD. That has been gone through by the group that Mr. Lewis talked about in the opening statement.

Mr. ECKART. I want to focus on these untitled vouchers for a second. Title 18, United States Code, section 201, makes it illegal for a contractor or potential contractor to give anything of value to a military officer or other Government employees. The court decisions on this are really clear What Congress had in mind was to prohibit individual dealings with the Government in the course of their official duties of Government employees, for giving employees additional compensation or tips or gratuities for or because of any official act already done or about to be done.

The awarding of gifts thus related to an employee's official act is an evil in itself, even though the donor does not corruptly intend to influence the employee's official acts, because it tends to bring about preferential treatment by Government officials or employees consciously or unconsciously.

Mr. MacDonald, early in our subcommittee's audit of various accounts of General Dynamics headquarters, Washington office at Electric Boat Division, names of military officers have surfaced repeatedly. Some of these vouchers that we have examined also have had no names, but appeared to be for entertainment of military officers.

When questioned by our subcommittee staff, the Washington office General Dynamics executives denied they had any knowledge of any military officers being furnished gratuities, including being entertained.

The subcommittee staff also interviewed Mr. Lewis in November 1984, and he denied having any direct knowledge of the illegal entertainment of military officers. However, our subcommittee staff has selected a sample of top ranking military officers and high Government officials for interviews—a four-Star Air Force general, a three-Star Navy admiral, an Assistant Secretary of Defense, an Assistant Secretary of State, Associate Directors of OMB, and others. All of these individuals have received gratuities from General Dynamics, some on more than one occasion. In addition, all of this entertainment was charged to the Government.

The subcommittee has a wide range of additional names that we can make available to determine the exact extent of this problem. We are not a law enforcement agency, Mr. MacDonald; we don't intend to be. But this subcommittee staff is going to turn the product of this investigation over to the appropriate Federal law enforcement officials.

We do note that the Department of Defense has exhibited a curious lack of interest in this issue.

Now, have you ever been advised, Mr. MacDonald, by Secretary Lehman or other Navy officials that gifts such as given to Admiral Rickover or the entertainment of other military officials have violated your contracts with the Navy?

Mr. MACDONALD. I'm sure with all the people that have asked me about it—someone has asked me that—there has to be a thousand people. Except Lehman; I have never talked to Lehman.

Mr. ECKART. Any other Navy officials specifically that you can recall advising you of the intent of this section of the Federal Code?

Mr. MACDONALD. Not that I can recall.

Mr. ECKART. Both you and Mr. Lewis said at the last hearing that there was no intent, despite the reading of the language that I just placed into the record reflecting this section 201--Title 18, United States Code, section 201—to obtain favors from Admiral Rickover in a word of performance or contracts.

Do you not agree that Admiral Rickover was a key Navy official who had tremendous influence in award of performance of your contracts at Electric Boat?

Mr. MACDONALD. Yes.

Mr. ECKART. Do you not concede that irrespective of your intention, it is entirely possible that Mr. Rickover and other key military officials may read your gifts in a manner inconsistent with your intent?

Mr. MACDONALD. You asked me that question just in regard to Rickover, because I don't know anything about any other item you mentioned?

Mr. ECKART. All right, I repeat the question.

Mr. MACDONALD. Please, would you repeat it?

Mr. ECKART. Despite your statement that there was no intent on your behalf to obtain favors from Admiral Rickover, do you agree that perhaps Mr. Rickover, as a key Navy official, could have viewed the gifts to him in a manner different than that which you intended them?

Mr. MACDONALD. I don't think I could possibly say what I think Rickover might think of. I can only say what I thought.

Mr. ECKART. So your intention was, you bank the gift under your intention despite the references in the Code that state exactly the opposite?

Mr. MACDONALD. I don't know what Rickover's feelings are.

Mr. ECKART. Have you ever been advised by counsel as to the impact of the Federal case *United States* v. *Irwin?*

Mr. MACDONALD. Could you repeat that, Mr. Eckart?

Mr. ECKART. There is a prominent Federal case concerning the giving of gifts to Federal officials entitled *United States* v. *Irwin.*

Has the corporate counsel ever advised you as to the impact of this case?

Mr. MACDONALD. Not that I recall.

Mr. **Eckart**. Has Lehman or anyone else in the Navy Department ever told you that giving gifts to Rickover did not violate your contract with the Navy?

Mr. **MacDonald**. No, no one ever said that it has not.

By the way, Mr. Eckart, back to your other question—Has anyone ever asked me from the Navy or made the comment that it was illegal to give gifts?—I believe the Navy investigators, when they did interview me, did mention that. I wanted to correct that.

Mr. **Eckart**. I appreciate that.

Two final points in this regard, Mr. Chairman.

It is clear to me that General Dynamics has given gifts to Admiral Rickover and entertained other military officials for a purpose. One doesn't give expensive gifts and entertainment and attempt to cover up the scheme without some purpose in mind. It is a shame, to me, that the folks to whom these gifts and entertainment have been given are the same individuals who sat in judgment on contracts which you are executing for the U.S. Navy.

Let me ask you, as the financial officer, one other question; and then my friend from Alabama is going proceed.

Mr. MacDonald, are you familiar with section 274-5 of the Internal Revenue Code?

Mr. **MacDonald**. I don't know what that is.

Mr. **Eckart**. It is a section of the Internal Revenue Code which provides for the collection for tax purposes, the provision of information such as names of employees and guests, purposes of conference or trips, date, and location of conference or points of travel for purpose of taking a tax deduction from Federal taxes.

Mr. **MacDonald**. That was a lot of words.

Mr. **Eckart**. Section 274-5 of the Internal Revenue Code requires, in order for a business expense to be allowable the following documentation should be provided: Date and location of conference or points of travel, names of employees and guests, purpose of the conference or the trip. Do you maintain the records for the business deductions, for purposes of a business deduction consistent with Internal Revenue Code 274-5?

Mr. **MacDonald**. It is obvious on some of the items we didn't have names.

Mr. **Eckart**. What else may have been missing?

Mr. **MacDonald**. I don't know. I would have to go back.

Mr. **Eckart**. Did your corporation take a tax deducation not consistent with section 274-5 of the Internal Revenue Code?

Mr. **MacDonald**. I don't know. I will have to go back and check.

Mr. **Eckart**. Clearly you did not keep the names of employees and guests even consistent with the DCAA memo to you, and in fact Mr. Scanlon, as my friend from Alabama has pointed out——

Mr. **Dingell**. Will the gentleman yield? Without objection, the entirety of that Defense Contract Audit Agency memorandum dated August 30, 1979, will be inserted in the record at the appropriate place.

[The memorandum follows:]

DEFENSE CONTRACT AUDIT AGENCY
CHICAGO REGION
ST. LOUIS BRANCH OFFICE
210 NORTH 12TH STREET, ROOM 1148
ST. LOUIS, MISSOURI 63101

IN REPLY REFER TO
3201/9A140022

30 August 1979

General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 63105

Attention: Mr. W. Ray Crain
Corporate Staff Assistant

Gentlemen:

In order to determine the allowability of business conference expenses, the following documentation is required:

a. Copies of paid invoices attached to a properly prepared travel voucher or expense report for the conference.

b. Date and location of conference or points of travel.

c. Names of employees and guests.

d. Purpose of conference or trip.

e. Report on matters discussed as to the nature of business conducted.

f. Place or name of establishment where the conference or luncheon was held.

The above information is required in order to determine the allowability and allocability of the cost. All of the above documentation has not been available to us in the past; however, since you are required to maintain most of the above information per Section 274-5 of the Internal Revenue Code, we believe this information should be readily available in order for us to make our audit determinations.

Please reply as to the availability of the above documentation by 14 September 1979.

Sincerely,

B. L. Nittler
B. L. NITTLER
Branch Manager

Copy furnished
Mr. Paul J. Webb, CACO

Mr. **Eckart** [continuing]. If I just may finish my point, Mr. Chairman, and then I will conclude my time.

It is difficult for me, Mr. MacDonald, to think that you could have it both ways. To instruct your employees through Mr. Scanlon's memo not to keep a list of conferees and documentation, yet if you are required for purposes of taking a tax deduction under section 274-5 of the Internal Revenue Code, you had to have it.

Now, either that means you didn't have it for purposes of our investigation, but you had it for the purposes of the Internal Revenue Code, or you submitted basically unallowable deductions because you didn't meet the minimum requirements of the Internal Revenue Code.

Mr. **MacDonald**. I can assure you we didn't have it for one purpose and not the other, but we will have to go back and check and find out how we did handle it, because I don't recall.

Mr. **Eckart**. You know, heaven forbid, that you might have to pay taxes because you haven't kept these records, Mr. MacDonald, and considering the General Dynamics profile on paying taxes for the last 4 of 5 years I think maybe I don't want you to have to have these records.

Mr. **MacDonald**. Would you like to raise that question again about why we have not paid taxes? Maybe Mr. Sikorski could help me out.

Mr. **Dingell**. Would the gentleman yield?

Mr. **Eckart**. No, Mr. Chairman. I won't yield. Mr. MacDonald, I never have once raised any objection to you seeking consultation from those very high-priced grey-suited individuals seated behind you for the purpose of dealing with these questions.

I frankly resent any attempt on your part for me not to converse with those who are interested in pursuing the taxpayers' interests on this matter. Now, if I seek Mr. Sikorski's advice or the staff's advice on these matters, it is for the purposes of establishing the truth, something which you have been very successful at obfuscating through two series of hearings.

Mr. **MacDonald**. I apologize for the comment.

Mr. **Eckart**. Mr. MacDonald, I take a very dim view of you personalizing these remarks. I have come here in good faith to ask you a series of questions that I view to be important for my constituents. I never have once castigated in any way, shape, or form your preparation, appearance, or demeanor before this committee.

Those of us who share the public's interest in a strong national defense and in getting to the truth of a wide range of allegations, some of which have been made before this committee by accused fugitives from justice, deserve at least the courtesy of comporting themselves in a manner consistent with public decency and dignity. I personally resent your references.

Mr. **MacDonald**. I apologize.

Mr. **Eckart**. And I accept the gentleman's apology. I yield back the balance of my time, Mr. Chairman.

Mr. **Dingell**. The Chair thanks the gentleman. While we are on the same subject, the Chair would like to make an inquiry.

Who, gentlemen, is Mr. Paul T. Scanlon? Mr. MacDonald, who is Paul——

Mr. **Lewis**. Scanlon was in interntional marketing at one time. I don't believe he is with the company at the present time.

Mr. **Dingell** [continuing]. I have here an interoffice memo, General Dynamics Corp. headquarters. It is a memo from P.T. Scanlon, signed Paul T. Scanlon, dated November 23, and I think it is 1981 because its subject is expense reports July 28 to November 7, 1981. It is directed to Mr. Jose Zapata, and it says:

> Attached find corrected copy for subject expense reports. For future reference, please do not list names of conferees on the documentation. List only the number of persons and the purpose of the business conference.
>
> Additionally, if breakfast, lunch, or dinner is actually a business conference, then it should be listed under Other Expenses and described on the back of the expense report. Hotel charges should only include room charge plus tax, phone, library, garage charges, etcetera, should be broken out and listed under Other Expenses.

Now the question is, does this represent General Dynamics's policy? It is on the letterhead, General Dynamics Corp., corporate headquarters, and it says again, as I read here, "For future reference please do not list the names of conferees on the documentation. List only the number of persons and the purpose of the business conference." Does that represent corporate policy?

Mr. **MacDonald**. That was the requirement for names, Mr. Chairman; it was never a requirement.

Mr. **Dingell**. Well, it is interesting that the memorandum from Mr. Scanlon says don't give the names, but the memorandum from the Defense Contract Audit Agency, signed by Mr. B.L. Nibler, branch manager, to General Dynamics Corp., dated August 30, 1979, attention Mr. W. Ray Crain, corporate staff assistant, says that you must give the names of employees and guests.

Mr. **MacDonald**. The regulations do not require that, Mr. Chairman.

Mr. **Dingell**. The regulations do not?

Mr. **MacDonald**. They do not.

Mr. **Wyden**. Would the chairman yield for just one quick question?

Mr. **Dingell**. I will be happy to.

Mr. **Wyden**. I appreciate that and we can debate about the regulations, but my concern is that if we have an arrangement where you don't have to list the names, I mean the taxpayers are clearly going to say that General Dynamics as a result of this arrangement may be violating the law. It could be, for example, providing gratuities to government officials, and I still don't think that you are getting the gist of this proceeding.

We are finding all kinds of procedures used by the company, where you don't have to list names and the like, that make taxpayers very, very unhappy at a time when they read daily about these horror stories.

Mr. **MacDonald**. Mr. Wyden——

Mr. **Dingell**. Let the Chair continue here. We have got a situation where General Dynamics has about $5 million in blank vouchers that are outstanding. To your credit, Mr. Lewis, you have indicated that those are going to be disallowed, and I commend you for that. What I am trying to figure out is (a) what is the policy of the Federal Government; and is it good? (b) What is the policy of General Dynamics, and is it good? And what changes in the policies of the two entities should take place?

I detect here that we have a situation where the Defense Department is going to have to explain a little bit about this, but I also detect some other folks, including members of this committee, are going to have to do a little bit of questioning about this whole business. Let me just give you a little bit here. Mr. LeFevre of your Washington office had in 1982 528 business conferences. Now, I also detect that Mr. Ray Kozen of your Washington office had 569 business conferences in the same year. Your records don't give you the vaguest appreciation of who was entertained and why. All you know is that business conferences were billed to the corporation.

Now, IRS says you have got to show who got what or who was entertained and why. You say the Defense Deparment doesn't require that. Now, if I take that we have approximately 220 business days during the course of a year, I observe with distress that Mr. LeFevre had approximately two and a half business conferences per day. Mr. Ray Kozen of your office had almost three per day.

I think you should probably commend these gentlemen because it demonstrates an extraordinary level of diligence in terms of business conferences. But I am curious. If they spent this much time having business conferences, what else did they do?

Mr. LEWIS. Well, Mr. Chairman, we, in our opening statement, have advised that we are going to require that the names of all attendees, the purpose and the amounts and so forth, be included in the future.

Mr. DINGELL. Let's take a little for instance. I am looking at one of these here.

Mr. SHELBY. Mr. Chairman, would you yield just a minute?

Mr. DINGELL. I will be delighted to yield to the gentleman.

Mr. SHELBY. I appreciate the chairman yielding.

Mr. Lewis, while they are looking at some of that, I thought I would go ahead and ask you a question regarding some of the $5 million in blank vouchers and unallowable charges. For example, I have here a voucher in my hand from General Dynamics Washington office employee Mr. R.E. Kozen. How do you pronounce his name, sir?

Mr. LEWIS. Kozen.

Mr. SHELBY. Where he purchased $120 worth of cookbooks in December of 1982. This was in turn billed to the government in the allowable travel account. Mr. Lewis, are General Dynamics employees trying to do their own cooking to save the taxpayers some money, or did the taxpayers get cooked from this charge that you submitted?

Mr. LEWIS. I wish I could answer that.

Mr. SHELBY. For the record, Mr. Chairman, I would like to introduce this invoice. It says, "General Dynamics Private Information." It was private until it was submitted as overhead expense, $120 for a cookbook, 12 cookbooks, or 10 cookbooks at $12 apiece. And I would also like to know for the record who got those cookbooks, if you can tell. Was it someone that shouldn't have received them? Can you get that information and furnish it to the committee?

Mr. LEWIS. I will try. What is the date on it?

Mr. **Shelby**. The date of the invoice is 12/14/82. It sounds like a Christmas present, $12 apiece, 10 of them, 10 cookbooks, $132 total, General Dynamics Private Information.

Mr. **Lewis**. We will find——

Mr. **Shelby**. I think the taxpayers want to know who got cooked.

Mr. **Dingell**. Let me come back.

Mr. **Shelby**. I will yield back.

Mr. **Dingell**. I thank the gentleman.

I am looking here at one of the vouchers that we got, and this is William H.L. Mullins. Mr. Mullins' expense account is: Gratuity coach check, $2; babysitter, $10; babysitter, $20; gratuities maitre d' at restaurant, $10; babysitter, $25; babysitter, $25; gratuity at baggage and hotel, $10. Then there is a final item on this. The diligence of recordkeeping is remarkable here, because it says, "Refreshments on aircraft, $3." I assume that is for drinks. Are these allowable expenses?

Mr. **Lewis**. I don't know whether they are allowable or not, Mr. Chairman under the DAR's. I know what the babysitting is about. He has a 20-year-old totally crippled child who is very badly crippled, and he cannot do any part of his job in leaving town and leave that young man alone.

Mr. **Dingell**. I agree about that, but is that a properly allowable expense?

Mr. **Lewis**. I don't think so.

Mr. **Dingell**. The Chair is going to observe that I have used my time. The Chair recognizes the gentleman from Alabama.

Mr. **Shelby**. Mr. Chairman, I will try to be as brief as I can.

Mr. Lewis, regarding Mr. Ashton, you said, as I understood it, that Mr. Ashton could not develop "a working relationship" with his fellow managers. What is your definition of "a working relationship"? Does it means that one has to go along to get along with General Dynamics, and was that one of the problems there? He found some stuff that people in the hierarchy of General Dynamics didn't want brought out, even in the company?

Mr. **Lewis**. No; I don't think so. I think he made a point very clear that this was a unique experience relative to the other two divisions, compared to the other two divisions. No; you cannot operate on a highly complex development in production of a sophisticated weapons system without good trusting relationships between engineering, planning, production, manufacturing, contracts, and the whole gamut.

Mr. **Shelby**. Excuse me just a second. Did you trust Mr. Ashton when you brought him in from Fort Worth, where he had obviously done a good job, to move to Electric Boat? Did you trust him and think he was qualified at the time you brought him?

Mr. **Lewis**. I thought he was qualified to do the job he was doing at Fort Worth, and I thought he had a high probability of growing into the position of being qualified to be the general manager of Electric Boat.

Mr. **Shelby**. What was his real problem, that he ran into Mr. Veliotis and his way of doing business with the government? Was that one of the real problems?

Mr. **Lewis**. Those last three words I don't think are correct. I think he did run into problems with Mr. Veliotis, but I would like to tell you that Mr. Veliotis selected Mr. Ashton after what amounts to an audition at Fort Worth, where he spent some time with Mr. Ashton and was satisfied.

Mr. **Shelby**. Sir, who is running or who is in charge, other than yourself as CEO and chairman of the company, of the Electric Boat Division in Connecticut now?

Mr. **Lewis**. Today?

Mr. **Shelby**. Yes, sir.

Mr. **Lewis**. Fritz Tovar.

Mr. **Shelby**. And how long has he been with General Dynamics, approximately?

Mr. **Lewis**. Approximately, I would think, 1974.

Mr. **Shelby**. 1974. Was he trained under Mr. Veliotis then?

Mr. **Lewis**. He had worked for Veliotis years ago, and then he had worked for one of the large steel companies, I don't remember which, and came to General Dynamics to head up the operations in Charleston, SC, and then was the manager of the very complex operations at Quonset Point, RI, from which he was promoted to the top job.

Mr. **Shelby**. When did he go to the Electric Boat Division? Did he go while Mr. Veliotis was still in charge?

Mr. **Lewis**. Oh, yes.

Mr. **Shelby**. And did he have a close——

Mr. **Lewis**. Veliotis hired him from that steel company.

Mr. **Shelby** [continuing]. Did he have a close working relationship with Veliotis then?

Mr. **Lewis**. I don't think particularly.

Mr. **Shelby**. Did they have any trouble? Did you know of any personal, or disagreements over policy

Mr. **Lewis**. No, I don't think—no, I don't remember any particular trouble. Mr. Veliotis—I don't know why I can't think of his name—Veliotis——

Mr. **Shelby**. Sir, you won't ever forget his name.

Mr. **Lewis** [continuing]. I will never forget it. As I think we mentioned earlier, he was against everybody until they proved themselves, and once they had proved themselves, why, then he had a different style of running a place. He did a good job at Quincy and that's why we moved him up to E.B.

Mr. **Shelby**. Was he doing a good job up there?

Mr. **Lewis**. Pardon me?

Mr. **Shelby**. Is the gentleman that is in charge now doing a good job for Electric Boat now, in Connecticut?

Mr. **Lewis**. At Quincy?

Mr. **Shelby**. No, the one now——

Mr. **Lewis**. Tovar? I think he is doing an excellent job.

Mr. **Shelby** [continuing]. Mr. Lewis, we have been talking about, all day and in the other hearings, about certain overhead of corporate vouchers that have been submitted in the course of General Dynamics's work for the Government, as allowable deductions or business expenses. Were these so-called expenses also documented and sent to the Internal Revenue Service as part of your corporate overhead?

Mr. **Lewis**. I can't answer that. I think Mr. MacDonald pointed out——

Mr. **Shelby**. For that committee, since we are employed up here and doing some oversight investigation into accounting practices of the various firms, as you well know, could you find out that information for the committee?

Mr. **Lewis**. Let me make sure I understand the question.

Mr. **Shelby**. OK.

Mr. **Lewis**. You want to know did we submit bills or vouchers that had been charged against Government contracts alternatively?

Mr. **Shelby**. Yes, as a business deduction on your tax returns.

Mr. **Lewis**. That would be a double charge.

Mr. **Shelby**. Sure. No, no, it wouldn't.

Mr. **MacDonald**. No, no.

Mr. **Lewis**. It it has been paid as an allowable cost.

Mr. **Shelby**. OK.

Mr. **Lewis**. But had it been turned down by DCAA——

Mr. **Shelby**. Then you submit——

Mr. **Lewis** [continuing]. Then I will find the answer.

Mr. **Shelby** [continuing]. OK. And if you did submit it, if it had been turned down by DCAA as an allowable corporate overhead, then you submitted it to the Intenal Revenue or claimed it better as a corporate deduction.

Did you furnish documentation to support that over and above the documentation that you submitted to the government for the vouchers; meaning, for example, did you list the names and the places and the people who were entertained, and for what purpose, which the IRS would probably want to know?

Mr. **Lewis**. Mr. MacDonald said no.

Mr. **Shelby**. You didn't do that?

Mr. **MacDonald**. I said we did not have a double set of records at all.

Mr. **Shelby**. Has your company been audited by the Internal Revenue Service in the last 2 or 3 years?

Mr. **MacDonal** Oh, yes, and we are in process now.

Mr. **Shelby**. Are you currently undergoing an audit by the Intenal Revenue Service in different divisions of your company?

Mr. **MacDonald** I believe they are involved in a normal audit, yes.

Mr. **Shelby**. Just a normal. It would take an extraordinary audit to cover a lot of this, wouldn't it, and a lot of agents, considering the size of your company and the amount of money that flows through?

Mr. **MacDonald**. We, I am sure, for all practical purposes, have almost permanent residents there, almost.

Mr. **Shelby**. Is Arthur Andersen still representing your company?

Mr. **MacDonald**. Yes.

Mr. **Shelby**. And have they repesented your company for a number of years?

Mr. **MacDonald**. Yes. They are the independent accountants, I assume that is what you meant.

Mr. **Dingell**. Would the gentleman yield?

Mr. **Shelby**. I yield to the chairman.

Mr. **Dingell**. Gentlemen, I have read to you Mr. Scanlon's letter. Mr. Scanlon says "For future reference please do not list names of conferees on the documentation. List only the number of persons and the purpose of business conference."

I have mentioned that two of your gentlemen in the Washington office for 1 year have had better than 500 business conferences. I observe now that I asked you what constituted a policy of General Dynamics. You indicated no particular policy, but said that the Defense Department policy did not require that the names be listed.

Let me read to you a letter received by me on March 21, rather sent March 21, 1985, and received March 1, 1985, on the letterhead of the Secretary of the Navy, signed by John Lehman. It says— addressed to me:

> Dear Mr. Chairman, this is in response to your letter of March 20, 1985, which asks why the Navy's corporate administrative contracting officer for General Dynamics Corporation in St. Louis required General Dynamics to identify business conference attendees in order to consider the costs of the conferences as legitimate. You ask whether this is a common practice throughout the Navy.

This is, I think, the operative paragraph. It says,

> The Navy will not pay under its contracts any unallowable costs incurred by contractor. The burden is on the contractors to demonstrate that the costs are allowable and to provide adequate records to support their request for payments. The Navy's administrative contracting officer in St. Louis requires the names of those who attend business conferences in order to help to determine whether or not the costs for particular conferences is in fact an allowable expense. All Navy contract administrators have been directed to conduct in-depth review of defense contractors to insure that the overhead rates exclude all unallowable costs.

Very well. Now, I guess I am trying to figure out what is the policy of your corporation? What is the policy of the Navy? What are the practices that are permitted? We have here 2 of your employees who in the course of a year submitted better than 500 of these vouchers on business conferences of an average of about 2 or 2½ a day. You tell me it is not their policy. As near as I can discern in no instance were the names of those who attended or participated in the conferences identified.

Mr. LEWIS. With respect to our policies today and our policies earlier, they are different, and as I just described, there will be no policy, there will be no business conferences reimbursed to the employee without the name and the purpose of the occasion.

Those vouchers that you describe from the past are part of this $23 million, I am told. Those are our business expenses unsupported by documentation.

Mr. DINGELL. The Chair thanks the gentleman.

Mr. SHELBY. Mr. Chairman, reclaiming my time, if the Chair will permit.

Mr. Lewis, does General Dynamics keep a secret record, a so-called little black book or something like that about who is being taken to dinner, who is being put up in hotels, who is being invited to golf outings, et cetera?

Mr. LEWIS. Not to my knowledge.

Mr. SHELBY. How do you keep up with who you entertain, if you don't keep up with this in some way, or some of your people that work the Hill and work the defense establishment?

Mr. LEWIS. I don't know. I try not to entertain any more than where records are available, but I don't know the answer to your question.

Mr. **Shelby**. Mr. MacDonald, if I can move on to him, next to you there. In January 1981 it is my understanding that you approved a payment for a special reception at the Congressional Country Club. Costs of about $15,000 were billed to the Government. What was this so-called special reception? And I am using this note from General Dynamics, for the approval of it, of the cost of it. What was the special reception all about? Do you recall who attended this? You know this is an expensive reception, $15,000.

Mr. **MacDonald**. That has my name on it? I have never been to the Congressional Country Club.

Mr. **Shelby**. I didn't say you have been. I said it is my understanding you had approved it——

Mr. **MacDonald**. You asked me who was there.

Mr. **Shelby**. Mr. Edward J. LeFevre, is that the gentleman's name?

Mr. **MacDonald**. Yes.

Mr. **Shelby**. That is what it was for. Special reception, 275 people, $15,000—$14,975.10, to which I would want to offer into evidence up here, or into the record, I should say. I wanted to ask you about it. Who was there? If you don't know who was there at a $15,000 party——

Mr. **MacDonald**. No.

Mr. **Shelby**. Did you ever have any idea or did you care who was there? Isn't $15,000 a good payout for a corporate party of some kind?

Mr. **MacDonald**. I am sure it is.

Mr. **Shelby**. Would you say it is a lot or medium or what? What kind of parties do you have at General Dynamics?

Mr. **MacDonald**. I have some that——

Mr. **Shelby**. You have some more expensive than this?

Mr. **MacDonald**. It may have been a Christmas party.

Mr. **Shelby**. A Christmas party?

Mr. **MacDonald**. I am not sure. I am not sure.

Mr. **Shelby**. It says 14, as I say, $14,975.10. Is this part of your corporate overhead that you are going to continue to bill the taxpayer for building a weapons system?

Mr. **MacDonald**. Absolutely not. Mr. Lewis made that clear in the opening statement.

Mr. **Shelby**. But this is what you have done in the past; is that correct?

Mr. **MacDonald**. I don't think—probably there is some in there, but I don't know how much. The $23 million did pull out a lot for current years.

Mr. **Shelby**. $23 million is not a lot of money to General Dynamics, considering the billions of dollars that you make.

Mr. **MacDonald**. It is a lot of money.

Mr. **Shelby**. And also the billions of dollars that you deal in, but $23 million is a lot of money to the American taxpayer who has to pay it. Most people that are prodefense want to be secure, want good weapons systems, but don't you believe that they deserve an honest break there too?

Mr. **MacDonald**. Yes; we believe that is a lot of money.

Mr. **Shelby**. When did you start believing this, just after these investigations started? Is that when you started believing it?

Mr. MacDonald. No.

Mr. Shelby. When did you change, if you have, your policy of what you submit to the Government for corporate overhead, assuming you have changed it? Has it been this year, 1985, since the hearings have started, or did you start it at a different time? And if so, I would like to know, and could you furnish——

Mr. MacDonald. That was in Mr. Lewis's opening remarks, Mr. Shelby.

Mr. Shelby. I understand that, but I am asking you. You deal in finance, do you not?

Mr. MacDonald. Yes.

Mr. Shelby. When did you start a different tack as far as submitting what to the U.S. taxpayer? When?

Mr. MacDonald. 1985, going back and correcting to the open years in the overhead G&A, that's the $23 million.

Mr. Shelby. Thank you, Mr. Chairman.

Mr. Dingell. The time of the gentleman has expired. The Chair recognizes the gentleman from Kansas, Mr. Slattery.

Mr. Eckart. Will you yield to me just for one question?

This $23 million that you keep talking about that you are taking back, I commend you for it, Mr. MacDonald, but everything we seem to ask today has fallen into that $23 million, so that is getting to be a pretty big catchall. We keep holding these hearings, we will fill that $23 million up real fast. That is my best guess.

I understand DCAA has also taken a look at $22 million worth of airfare that General Dynamics has been unable to provide passenger lists, trip destinations, and purposes for. Is that included in this $23 million, or is that separate and above from what we are looking at here in change of policy, change of heart?

Mr. MacDonald. $22 million? I don't know.

Mr. Eckart. DCAA has advised this subcommittee that there is $22 million in corporate airfare travel for which General Dynamics is unable to provide passenger lists, trip destinations and the like.

Mr. Lewis. I don't think we know precisely on all of the aircraft flights. The DCAA audit, as I understood it, threw out all aircraft used, period, the end, zero was left. I know that there are a number of legitimate flights still in there, and I don't know how to attach that to your $22 million issue.

All of those for which no—we use the words "no precise business purpose," or something like that have been thrown out, and I think they are not part of the $23 million, but were prior to that.

Just one other thing. I do think it is important—I don't believe that Mr. Slattery was here—that we are continuing to add to that number by this voucher-by-voucher analysis.

Mr. Eckart. I was just curious if this 22 is part of the 23 that we are talking about?

Mr. Lewis. Yes.

Mr. Slattery. So the response to the gentleman's question is you don't know whether the 22 that Mr. Eckart referred to is in fact included in this 23 or not?

Mr. Lewis. I am confident that a large part of it is not.

Mr. Slattery. You are confident that a large part of it is not. Let me just say, to put all of this sort of back in perspective a little bit, basically between 1979 and 1982 you submitted overhead reimbursement claims for approximately $170 million, and of that amount, the DCAA audits questioned $63.6 million of it.

Mr. Chairman and my colleagues, the good news today is that you have in effect said you are not going to claim $23 million of the perhaps $63 million that was questioned, and that is good news for me, Mr. Lewis.

It is not often that we in the Congress can spend 2 or 3 weeks and come up with $23 million that we can point to as perhaps the fruits of our efforts, but that is the good news. You know there has been a lot of talk about toilet seats and coffeemakers and all that stuff. That is peanuts compared to what we are talking about here, and the bottom line is that General Dynamics today is saying that they are not going to claim $23 million in reimbursements that they had previously claimed. That is good news to the DOD. It is good news to the taxpayers of this country, and we are making progress.

Mr. Lewis, I want to commend you, actually. Since our last meeting I have had an opportunity to do a little research on you, and probably you have done some research on me. Let me just commend you. In looking over what General Dynamics has done since 1980, I think it is important that you be complimented, frankly, as an outstanding corporate executive in terms of delivering to your shareholders.

That is, after all, your moral and ethical obligation, as long as it is done within the confines of the law and the ethics of our society. Earnings for General Dynamics have increased from $195 million in 1980 to $382 million in 1984, and stock prices are up to over $70. I don't know where it is today, but last week it was in the middle seventies, from $29 in 1980, so they've more than doubled; return on equity increased to 37 percent from 22 percent in 1980, which is good news for shareholders; sales upped to $7.8 billion from $4.6 billion in 1980; and order backlogs up to $22 billion from $11 billion in 1980, which is tremendous news for shareholders. General Dynamics has earned $1.1 billion since 1980, and not 1 cent has been paid in Federal taxes.

And let me say, Mr. Lewis, I know there is a lot of sort of demagoguery about that issue. That is not your problem. That is this administration's problem and this Congress' problem. We have the power to write the tax laws in this country. You don't. And I think that that point needs to be made in all fairness to you, that the tax law problems and the fact that you don't pay any corporate income taxes is our problem, the problem of this administration and this Congress, and it should be corrected.

Dividends also are interesting. They were classified as a return of capital and immune apparently from taxes until last year, according to this Business Week article, and the Crown family, which owns about 23 percent of General Dynamics, has seen the value of their stock increase since 1980 to $890 million from $290 million in 1980, about a $600 million increase for the Crown family's interest in General Dynamics.

So over the last few years I would say that the Crown family has been a big winner in this whole deal.

The current issue of Business Week also states, and I quote, "By 1988 analysts predict the General Dynamics money machine will turn out a staggering $1 billion in excess cash." Of course, that is a company that is doing 94 percent of its business with the DOD. The article indicates that in 1983 and 1984 the company spent about $700 million to buy up about $13 million in shares, according to this article in Business Week, or about 20 percent of outstanding shares.

I guess the message there is that if you are involved in doing business with the Department of Defense right now, business is good and times are good, and you have done a good job of maximizing profits, Mr. Lewis, for your shareholders, and in all candor I think you should be commended for that. I mean that is part of your job.

But, I want to move on now, if I can, to some other questions. First of all, just a little cleanup. I hope you will agree to submit to the committee information that I requested earlier about Mr. Sawyer's salary and the other 50 top executives. The information that was submitted was sort of a total package of information. I think the committee would like to have it broken out by individual employee.

Mr. Lewis, there have been allegations that General Dynamics has attempted to remove records supporting disputed overhead accounts from the Electric Boat Division and ship them to corporate headquarters in St. Louis, shortly after your testimony on February 28. Why did General Dynamics attempt to remove these disputed records, if in fact they did, and have all the records been returned to Electric Boat?

Mr. LEWIS. It wasn't Electric Boat, it was everywhere. When we left, went back and decided what we were going to do with respect to these vouchers and so forth, claims, we were going to screen them, bill by bill, voucher by voucher. We thought we could do it better in one place. The local government auditor in two or three places objected. They felt that these were—they didn't want them leaving town. It was mostly for processing, so we set up 500 people to work with them locally. There wasn't anything——

Mr. SLATTERY. Has General Dynamics been destroying any records as a result of this review, Mr. Lewis?

Mr. LEWIS. Have they been what?

Mr. SLATTERY. Have they been destroying any records?

Mr. LEWIS. No, absolutely not, not to my knowledge. Just the opposite. I will describe the procedure. They are just taking box after box and going through them and marking questionable items and then they are disposed of one way or the other, handed back to the DCAA. Where we remove a voucher, where we want to no longer claim the voucher, we will say, an expense, that voucher is left in the file, but it is marked in some way that would indicate we no longer request repayment of it, reimbursement.

Mr. SLATTERY. So your sworn testimony in response to my question is absolutely not?

Mr. LEWIS. To the best of my knowledge, absolutely not. I would be shocked.

Mr. SLATTERY. I have a question or two about an LNG contract that apparently General Dynamics was involved in several years ago. After General Dynamics had reached agreement with Burma Oil and the State Oil Co. of Indonesia to provide LNG tankers, Mr.

Veliotis says he was told by Ely Askowlekundos, on a plane ride back from Tokyo, that the Indonesians expected a $1 million kickback per ship of the seven-ship production run.

Mr. Veliotis says he had a private meeting with you, Mr. Lewis, and that you authorized setting up a $1 million contingency fund per ship to satisfy the kickback demands. Mr. Veliotis says he wrote a memorandum memorializing the contingency fund arrangement without stating its purpose, and sent the original to you, Mr. Lewis, and a copy to Carter Eltzroth, the general counsel at Quincy.

It was filed in Mr. Eltzroth's file and given a numerical code apparently in sequence, as all his files apparently were coded by number. Would you please produce, first of all, the file for the subcommittee and make Mr. Eltzroth available for staff interviews.

Mr. Lewis. Sure. I have absolutely no knowledge of any such memorandum.

Mr. Slattery. Would you also comment on the allegation by Mr. Veliotis.

Mr. Lewis. It is typical Veliotis. I know nothing of it. I have no memory of any memorandum of setting $1 million aside for any purpose at any time.

Mr. Slattery. You deny having had the private meeting with Mr. Veliotis?

Mr. Lewis. I certainly don't remember any meeting with Veliotis.

Mr. Slattery. That is your testimony?

Mr. Lewis. I had lots of meeings with Veliotis.

Mr. Slattery. But you have never met with Mr. Veliotis to discuss kickbacks involving the Burma Oil and State Oil Co. of Indonesia?

Mr. Lewis. Not to my memory, absolutely not.

Mr. Slattery. Not to your memory?

Mr. Lewis. We haven't done anything like that.

Mr. Slattery. The St. Louis Post Dispatch disclosed in a March 10 story that General Dynamics informed its outside auditors, Arthur Andersen & Co., in early 1977 that it expected to make a 35-percent profit on two LNG tankers the company was building with the help of subsidies from the U.S. Maritime Administration. The company was telling the Maritime Administration at the same time, however, that its profits on the two tankers would be no more than 10 percent.

Now, the Maritime Administration subsidy would have been $15 million less if the profit margin in this project was close to the figure given to Arthur Andersen, but by projecting the lower profit margin of 10 percent that was submitted to the Maritime Administration, General Dynamics was in effect able to get an additional subsidy of about $15 million. Would you care to comment on this, Mr. Lewis?

[The article referred to follows:]

[From the St. Louis Post-Dispatch, Mar. 10, 1985]

GENERAL DYNAMICS HAD TWO VERSIONS ON PROFIT

(By Jon Sawyer and William Freivogel)

WASHINGTON.—General Dynamics Corp. contracted with a government agency in 1977 to build two government-subsidized tankers for a 10 percent profit, while an internal company document was projecting a profit three and one-half times greater.

The document was signed by P. Takis Veliotis, a former General Dynamics executive who fled to Greece to avoid federal prosecution on unrelated kickback charges. He made the document available to a Post-Dispatch reporter in an interview last month in Athens.

The document is a letter dated Feb. 23, 1977, that Veliotis sent to Arthur Andersen & Co., which is General Dynamics' outside auditor. The letter says the company anticipated a profit of 35.2 percent on two liquefied natural gas (LNG) tankers it planned to build with subsidies from the U.S. Maritime Administration.

General Dynamics received government subsidies worth $81.26 million from the Maritime Administration for the two tankers. Had the company told the Maritime Administration what is was telling its outside auditors the subsidy would have been about $15 million less.

The Justice Department is investigating the discrepancy between what the company told the Maritime Administration and what it told its auditors.

The Maritime Administration declined to disclose the final profit on the ships, which were completed in 1980. But a spokesman said the profit was much more than 10 percent and, in fact, was the highest profit ever achieved for ships subsidized by the agency.

The Maritime Administration official who reviewed the cost of the tankers in 1977 said he had recommended to his supervisors that they negotiate a lower price, but his advice had been rejected.

A spokesman for the Maritime Administration said the agency was satisfied it had provided the proper subsidy.

General Dynamics refused to comment after the Post-Dispatch gave the company details of what had been learned about the tanker subsidies. General Dynamics has corporate headquarters in Clayton, Mo.

Veliotis, former executive vice president of General Dynamics, is cooperating with the Justice Department investigation. He gave to the department the letter that was sent to the auditors.

Veliotis signed the letter in his capacity as general manager of the company's shipyard in Quincy, Mass. Also signing the letter was Gary S. Grimes, who was the controller at Quincy in 1977 and has since become general manager.

Maritime Administration officials said Grimes had been the chief representative for General Dynamics during the negotiations that set the price for the two tankers and limited the company's profit to 10 percent.

Veliotis maintains that the letter to Arthur Andersen's Boston office shows that the company was misleading the Maritime Administration in order to obtain a higher subsidy and higher profits. He says the matter was discussed at top levels of the corporation.

Robert J. Blackwell, who headed the Maritime Administration when the subsidies were approved, said in an interview that he was surprised that the company projected a 35.2 percent profit to its auditors. He said if he had known that at the time, he would have taken steps to reduce General Dynamics's subsidies.

"If they had that much profit margin built into the ships," Blackwell said, "it means the . . . costs were not fair and reasonable."

The two tankers were the ninth and tenth of a series of identical ships that General Dynamics built during the 1970s at its commercial shipyard in Quincy.

Veliotis said the letter to Arthur Andersen was a routine annual confirmation to the auditors verifying the accuracy and completeness of the Quincy division's financial statements.

Spokesmen for Arthur Andersen and for General Dynamics declined over the past two weeks to confirm or deny the authenticity of the letter. Federal investigators said documents supplied by Veliotis in the past had proved authentic.

The letter says that on the first eight LNG tankers, General Dynamics anticipated revenues of $801.8 million, costs of $734.6 million and a cost writeoff of $35.9 million for a net profit of $31.3 million—or 4.3 percent of costs.

On the next four tankers scheduled for construction, the letter says, the company anticipated much better results. Total revenues were projected at $640 million, total costs at $473.3 million and net profit at $166.7 million, or 35.2 percent of costs.

The projections in the letter reflect a sharp difference in price between the first eight tankers and the next four. General Dynamics charged about $100 million each, on average, for the first eight tankers. Its projected price on the next four was $160 million each.

The subsidies that General Dynamics received from the Maritime Administration in July 1977 were for two tankers only. The additional two tankers mentioned in the February 1977 letter were canceled in August 1977.

Maritime Administration records show that General Dynamics applied for the construction subsidies in June 1976 under the name of Lachmar—a separate corporate entity established by subsidiaries of three companies: General Dynamics, Moore-McCormack Resources Inc. and Panhandle Eastern Pipe Line Co.

The initial application estimated the cost of each tanker, adjusted for inflation, at $166 million. Subsequent negotiations lowered the price to $155 million.

Based on that estimate, the maritime agency approved construction subsidies of $39.5 million for each tanker. The subsidies were adjusted slightly during construction, agency records show, with final payment totaling $81.26 million.

The construction subsidy program, which was discontinued in 1981, was designed to keep American shipyards in business by funding the difference between U.S. shipbuilding costs and the lower costs of Japanese and European shipyards.

Agency records show that General Dynamics' contract prices on the first eight tankers it built, identical in design to the two Lachmar ships, ranged from $89.6 million to $100.7 million per tanker. These contracts were signed between September 1972 and December 1973.

General Dynamics received direct construction subsidies on three of the tankers; it received federal loan guarantees on all eight.

The documentation that General Dynamics submitted to the agency in 1976 and 1977, justifying the sharp increase in price on the Lachmar ships, cited the effect of high inflation.

According to Veliotis, however, the company already had firm price options on many tanker parts by 1977. He said cancellation of the two previously ordered tankers in August 1977 meant that General Dynamics could save substantial amounts of money by speeding up the Lachmar construction schedule.

These same factors now cited by Veliotis led to an unsuccessful challenge of General Dynamics' projected price by an official at the Martime Administration.

John J. McGowan, then chief of the division of domestic costs, said in an interview that he had begun to suspect in early 1977 that the original ninth and tenth tanker might be canceled.

McGowan, now retired, had the job of determining whether the price of the tankers was "fair and reasonable." Federal law requires such a determination before a subsidy is approved.

McGowan said that the cancellations had made it possible for General Dynamics to build the two Lachmar tankers more cheaply. Materials bought much earlier at lower costs for the ninth and tenth tankers could be used on the Lachmar vessels instead. Labor costs would also be lower, McGowan said, because future wage increases would have less impact.

McGowan attempted unsuccessfully to persuade General Dynamics to lower the price. He said the company had told him it had hoped to find a new purchaser for the ninth and tenth vessels.

The company also said the cancellation of the two tankers would mean that the fixed costs, or overhead, of the shipyard had to be spread out over fewer ships, McGowan said. This would offset any savings on materials and labor, McGowan said he had been told.

Although he was not convinced, McGowan said, he did not think he had authority to insist on reducing the price. So he asked his supervisor, John J. Nachtscheim, to make the decision. Nachtscheim went along with General Dynamics, McGowan said.

In July, the final contract for the tankers was signed at the General Dynamics price. The two other tankers were canceled the following month.

Nachtscheim, who was assistant administrator for operations in 1977, said he was unable to remember why he permitted the higher price. He said he might have made the decision because the ninth and tenth tankers had yet to be officially canceled.

Thomas W. Pross, the maritime agency's associate administrator for shipbuilding, operations and research, also took part in the Lachmar decision. He said in an interview that the costs General Dynamics had submitted in 1977 were honest and the subsidies awarded were legitimate.

"We would never have gone forward with a price on any information we thought was false." Pross said. "We firmly believe that the base price we set on the Lachmar ships, and the method of escalation (for inflation), were fair and reasonable."

Pross said the issues raised by McGowan had been carefully assessed at the time. He said the agency had determined that canceling the two other ships would have saved only $3 million on parts and labor for the Lachmar tankers—and that most of the savings would have been offset by increased overhead.

"Our judgment at the time was that it was a wash," Pross said.

Pross conceded that General Dynamics' own figures, submitted to the agency after the two ships were completed, showed a profit much higher than 10 percent. He declined to say how much higher, but he said the profits to General Dynamics were the highest ever on any ship subsidized by the Maritime Administration.

He said the increased profits had resulted from lower than anticipated labor costs, savings on parts and reduced overhead. He attributed much of the increase to a steep "learning curve"—the cost savings Generaly Dynamics achieved as it mastered the art of building the complex LNG tankers.

Pross said that in late 1976, when the basic price for the Lachmar ships was set, General Dynamics had yet to complete even one LNG tanker and had been reporting huge losses on the tanker program.

"They had a tremendous number of man-hours on that first ship," Pross recalled. "It was very difficult to tell what the learning curve would be, looking 12 ships down the line."

Maritime agency records show that the first Lachmar tanker, the Lake Charles, was delivered in May 1980. The last of the first eight tankers, the Virgo, was delivered seven months earlier. General Dynamics' final price on the Virgo was $100.7 million. The final price on the Lake Charles was $167.1 million.

The second Lachmar ship, the Louisiana, was delivered in September 1980.

The two tankers were intended to carry liquified natural gas from Algeria to Louisiana. They operated for only six months, however, from October 1982 to April 1983.

At that point, according to a spokesman for Panhandle Eastern, the Algerian gas was no longer marketable in the United States because of falling energy prices.

The two ships, now laid up at Newport News, Va., are the subject of several complex legal disputes involving Algeria and the three corporate owners of Lachmar.

Mr. LEWIS. Like a great many things, we learn about them the hard way, through the Post-Dispatch or equivalent. We read that article, and we have a study going on to find out whether that was true or not. I certainly have no knowledge of it, and we will supply that information when we get it. That comes as quite a surprise.

Mr. SLATTERY. Were you in your present position with General Dynamics in 1977, Mr. Lewis?

Mr. LEWIS. What was my position?

Mr. SLATTERY. Yes.

Mr. LEWIS. Same as it is now. Chairman and CEO.

Mr. SLATTERY. Are you alarmed at what would appear to be some duplicity, on one hand, saying to your outside auditors that you are going to see a 35-percent profit—and I guess that would be good news for shareholders—and on the other, out of the other side of one's mouth saying in effect that the profit is going to be 10 percent and thereby get a larger subsidy from the Government? Does that concern you, Mr. Lewis?

Mr. LEWIS. If that was the fact, that would.

Mr. SLATTERY. So your testimony today is that you have no knowledge of that; is that what you are saying, Mr. Lewis?

Mr. LEWIS. I am saying that I have the knowledge that I read in the St. Louis Post-Dispatch, and have asked our people to get the records and find out what, if anything, there is to it.

While we are doing all these things for the shareholders, I think the record should show we have done some very good things, good things in fulfilling our contracts with the U.S. Government, which is also part of my job.

Mr. **Slattery**. Let me just point out that, according to the same story, apparently, Mr. Veliotis maintains that the letter to Arthur Andersen's Boston office shows that the company was misleading the Maritime Administration in order to obtain a higher subsidy and higher profits, and he says the matter was discussed at top levels of the corporation. That is Mr. Veliotis' comment on that particular point.

One other area of questioning, Mr. Lewis. I'm just curious, since our February 28 meeting, whether you have had an opportunity to talk to Mr. Crown regarding the question that arose with respect to his top secret security clearance and the problems he had prior to becoming a member of your board, specifically?

Mr. **Lewis**. Yes; I have.

Mr. **Slattery**. Specifically, I would like to know why that information was not reported to the DOD, and why the DOD didn't find out about it? I don't want to get involved in talking about this particular person's problems of 13 or 14 years ago, but I think there is a question with respect to what the company was doing in its failure to report this information.

I would like to know, if you recall that.

Mr. **Lewis**. I was about to tell you, we have had our current security director dig back to find out what occurred, and he talked to the man now retired who was the security director at that time, in 1973 and 1974. As I believe I have said, I did not—was not aware that Mr. Grimes' request for security was being processed. There are a lot of those that go through our company every year.

He said that he—the former director said—he learned of this situation when the indictment came down. He then read the regulations, the industrial security manual or something, did his—said it was widely publicized, could not determine in his judgment that any notification was required. Now, that was his statement.

Since that time—and this is hindsight, in a sense—but the regulation is very vague on when you are to notify somebody with respect to changing adverse conditions. In 1984, a new regulation came out on the same issue for the first time listing a long list of things that would be considered appropriate or necessary to be disclosed. I think had the present regulation document been there—this is hypothetical, too—he would have filed something. But I wasn't aware that he was in, or had filed the top secret request in any event. But that is what we have learned.

Mr. **Slattery**. You know, I hope that you understand, and I am sure you do, that when you look at a situation like this from the outside and you see an individual who has a significant proprietary interest in this operation, where the family owns 23 percent, and the value of their stock has increased by $600 million in the last 4 or 5 years, and when these kinds of things come out, the flag goes up, the antenna goes up, and you wonder what is going on internally. You know, is there favoritism here? Somebody owns a big part of it and they are not given the close scrutiny that perhaps somebody else might be.

Mr. **Lewis**. I would—pardon me.

Mr. **Slattery**. In all fairness, I will give you the opportunity to respond.

Mr. **Lewis**. You're switching to another subject. On that subject, we have a memorandum of facts which we developed which may amplify the material that you have on the Lester Crown clearance issue.

Mr. **Slattery**. Very good.

Mr. **Lewis**. I would like to submit it to you and make it a part of the record.

Mr. **Dingell**. Without objection, so ordered.

[The statement follows:]

STATEMENT OF GENERAL DYNAMICS CORP.

In the course of these hearings, the members of this Subcommittee have expressed concern about Lester Crown's personal security clearance as a director of General Dynamics because of his involvement some 12 years ago in a trade association plan to make unlawfull payments to several Illinois legislators in order to secure legislation favorable to the ready-mix concrete industry.

Mr. Crown has long recognized that he made two serious mistakes in 1972-73, one by providing part of the funds paid by the association to the legislators, and the second by accepting reimbursement from employees of Material Service Corporation out of funds they obtained by submitting inflated expense vouchers to the company. Mr. Crown himself testified voluntarily before the secret Grand Jury on April 3, 1974, after receiving immunity, and he later voluntarily testified publicly as a witness for the Government in the 1976 trial.

Mr. Crown's role in the events of those years has long been a matter of public record. The proceedings were widely publicized starting on December 4, 1974, the day the indictment was returned. General Dynamics disclosed the basic facts to its shareholders in a number of proxy statements, and a fuller account was set out at length in General Dynamics' August 1976 Form 8-K filing with the Securititties and Exchange Commission. The 8-K discusses both the Grand Jury proceedings and the trial, and it includes complete copy of the 1974 indictment.

The Subcommittee has inquired whether Mr. Crown should have been granted a Top Secret security clearance in 1974, whether adequate disclosures were made to the Department of Defense at the time, and whether he should retain his clearance now. Those questions are currently being considered by the Department of Defense. The Defense Investigative Service (DIS) is reinvestigating Mr. Crown's continued eligibility for his clearance, and Mr. Crown is cooperating fully with DIS to ensure that DIS gets all the information it needs. We have every confidence that Mr. Crown will be found fully qualified to continue to hold his clearances, as he was in 1982. As Secretary Weinberger informed you in his letter of February 27, 1985, when Mr. Crown submitted his application for a Secret clearance as director of TWA is 1982, he disclosed the 1977 SEC civil proceeding against him and General Dynamics. After reviewing the complete docket of the SEC case, including the SEC's description of Mr. Crown's role in the events underlying the 1974 indictment, the Department granted Mr. Crown a clearance.

In his February 27, 1985 letter to Chairman Dingell, Secretary Weinberger stated that he has directed DIS to ascertain from General Dynamics management why the company did not itself report the information concerning Mr. Crown and to recommend what if any actions may be appropriate at this point. More recently, Mr. O'Brien, the Director of the Defense Investigative Service, directed General Dynamics by letter dated March 6, 1985 to inform him of the procedures that General Dynamics has in effect to prevent a recurrence of such reporting failures and how General Dynamics plans to ensure that any adverse information that may be developed regarding GD's cleared officers, directors and employees will be reported in the future. General Dynanics will supply a copy of its response to the Subcommittee.

Mr. **Dingell**. The time of the gentleman has expired.

Mr. **Slattery**. Could I sum up for about 30 seconds, Mr. Chairman?

I think in the final analysis, the good news is that we found $23 million. The bad news is we had to find it. That is sort of a mixed blessing, I guess.

I hope that in the future, with implementation of the changes you are saying you are going to make a good faith effort to implement those, we won't see this kind of thing.

But, Mr. Lewis, I have to tell you in all candor that I have serious questions about what we can expect, frankly, from General Dynamics in the future. I have serious questions about whether you should continue as Chairman of General Dynamics. You probably already know that. I think it would be in the best interests of General Dynamics, and frankly of the country, if we could get some clean, new management in the upper levels of General Dynamics.

I just want to tell you that eyeball to eyeball, and I think there is a serious problem here. We are talking about the defense of the country. We are talking about the production of what I consider the most important strategic leg of the triad, is your responsibility, and the responsibility of General Dynamics. I don't want it jeopardized.

I yield back any time I might have, Mr. Chairman.

Mr. DINGELL. The time of the gentleman has expired.

Mr. Lewis, I've I got here another example of something that troubles me. It is a succession of vouchers for the purchase of one set king-size bedding, box spring and mattress, 80 inches long, extra firm, $546. It was delivered to Clayton Inn, 7750 Corondelet Avenue, Clayton, Missouri 63105, on September 29, 1980. It was ordered September 29, 1980. It is chargeable to account 111, directors; it is sold to General Dynamics. And it is for Mr. Henry Crown at the board meeting.

Is that an allowable expense under the contracts?

Mr. MACDONALD. Mr. Chairman, could I just see that document? I think I might be familiar with it.

Mr. DINGELL. Yes.

[The documents referred to follow:]

[illegible]1 OLIVE STREET SAINT LOUIS, MISSOURI 63101 (314) 444-3111

October 16 19 80

SOLD TO General Dynamics
7733 Forsyth Blvd 23-368-054-5

TERMS CASH

ORDER NO. 1823 Sales Check / 10301-9

9/30/80 50/50 1 Set King Size Bedding 546.00

Perfect Sleeper
Signature-Extra Firm
Sales Tax 25.25
571.25

Deliver To:

Clayton Inn Hotel
7750 Carondelet Avenue

APPROVAL OF	
Originator for Mat'l. & Price	[redacted]
Dept. Head	
Accounting	
Math.	
CHARGE TO 111	

Account
88605

272 (10/71)

CONFIRMATION

Charge To Department	GENERAL DYNAMICS
111 - Directors – Henry Crown (Board meeting)	

ACCEPTANCE OF THIS ORDER INDICATES AGREEMENT TO COMPLY WITH ALL TERMS AND CONDITIONS STATED HEREON:
PURCHASE ORDER TERMS AND CONDITIONS

1. This Purchase Order constitutes the Purchaser's offer and shall become a binding contract on the terms set forth herein when it is accepted by the Vendor's written acknowledgment. No modification of such contract shall be effective unless agreed to in writing by an authorized representative of the Purchaser. Any acknowledgments which take exception to the terms and conditions set forth herein this Purchase Order, or to any supplement hereto, shall not be binding on the Purchaser unless such changes are agreed to the Purchaser in writing.

2. Delivery shall not be deemed to be complete until the goods ordered hereunder have been actually received and accepted by the Purchaser, notwithstanding any agreement to pay freight, express or other transportation charges, and the risk of loss or damage in transit shall be upon the Vendor.

3. Any applicable sales tax, duty, excise tax, use tax, or other similar tax or charge, for which the Purchaser has not furnished an exemption certificate, must be itemized separately on the Vendor's invoice.

4. The discount period shall be calculated from the date an acceptable invoice is received or from the date the goods are received and accepted by the Purchaser, whichever is later.

5. Vendor warrants that the goods covered by this Purchase Order (a) will conform to the specifications, drawings, samples or other description furnished or specified by the Purchaser, (b) will be fit and sufficient for the purpose intended by the Purchaser and (c) will be of good material and workmanship and free from defect.

6. The Purchaser reserves the right to refuse any goods and to cancel all or any part of this Purchase Order if the Vendor fails to deliver all or any part of the goods in accordance with terms of this Purchase Order. Acceptance of any part of the goods covered by this Purchase Order shall not bind the Purchaser to acceptance of future shipments, nor deprive it of the right to return goods already accepted.

7. The Vendor shall indemnify Purchaser and its officers and employees and hold them harmless from and against all claims, liability, loss, damage or expense, including counsel fees, arising from any breach of the warranty provided in paragraph 5 hereof, or arising from or by reason of any actual or claimed patent, trademark or copyright infringements, or violation of trade secrets, or any litigation based on any such breach, infringements or violation, with respect to any part of the goods covered by this Purchase Order by reason of the manufacture, sale or use of any part of such goods. Such obligations shall survive acceptance of the goods and payment therefor by the Purchaser.

8. Vendor shall grant free access to his records should the Purchaser make such request in connection with work performed on a time and material basis or cost reimbursement basis.

GDC 897 Rev. 11/76

BEST COPY AVAILABLE

GENERAL DYNAMICS
[illegible] Laclede Center, St. Louis, Missouri 63105

NO. 1823
Purchase Order

Date Ordered 29 September 1980	Date Required 29 September 198
Deliver To Clayton Inn	
7750 Carondolet Avenue	
Clayton, Mo. 63105	

VENDOR
Mr. Bob Stretch
Famous Barr Contract Interiors
611 Olive Street
St. Louis, Mo. 63101

QUANTITY RECEIVED		QUANTITY ORDERED	DESCRIPTION	UNIT PRICE	TOTAL
DATE	AMOUNT				
		1	Set King Size Bedding (Box Spring & Mattress) 80" long, extra firm		$546.00
			CONFIRMATION		

Charge To Department 111 - Directors	GENERAL DYNAMICS R J Shepherd

ACCEPTANCE OF THIS ORDER INDICATES AGREEMENT TO COMPLY WITH ALL TERMS AND CONDITIONS STATED HEREON
PURCHASE ORDER TERMS AND CONDITIONS

1. This Purchase Order constitutes the Purchaser's offer and shall become a binding contract on the terms set forth herein when it is accepted by the Vendor's written acknowledgment. No modification of such contract shall be effective unless agreed to in writing by an authorized representative of the Purchaser. Any acknowledgments which take exception to the terms and conditions set forth herein this Purchase Order, or to any supplement hereto, shall not be binding on the Purchaser unless such changes are agreed to the Purchaser in writing.

2. Delivery shall not be deemed to be complete until the goods ordered hereunder have been actually received and accepted by the Purchaser, notwithstanding any agreement to pay freight, express or other transportation charges, and the risk of loss or damage in transit shall be upon the Vendor.

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8. Vendor shall grant free access to his records should the Purchaser make such request in connection with work performed on a time and material basis or cost reimbursement basis.

GDC 827 Rev 11/78

Mr. MacDonald. Mr. Chairman, I am familiar with this particular voucher. First of all, it was not for Colonel Crown. I see it written on the document. I don't know why——

Mr. Dingell. It says here 111, directors, Henry Crown——

Mr. MacDonald. You didn't let me finish.

Mr. Dingell. Board meeting, close parentheses.

Mr. MacDonald. You didn't let me finish.

I don't know why Henry Crown is written on there. I do know that we bought a piece of plywood—I should say the Clayton Inn did—under a regular double-size bed for the colonel; didn't charge the company for it. I do know what this bed was for, this mattress.

Mr. Dingell. What was this bed for?

Mr. MacDonald. Mr. Veliotis, being a very large man, complained so heavily to the secretary of the corporation he got tired of listening to it, and bought the mattress.

Mr. Dingell. You mean this was bought not for Mr. Crown but for Mr. Veliotis?

Mr. MacDonald. That is exactly right.

Mr. Dingell. This was charged to account 88605.

Mr. MacDonald. It was charged into the cost of board meetings, and probably was charged against the Government, and should not have been.

Mr. Dingell. Is that a proper expense?

Mr. MacDonald. That would be a part of this $23 million.

Mr. Dingell. Well, I am comforted to hear that.

Mr. Sikorski. Mr. Chairman?

Mr. Dingell. Who is E.W. Shepherd?

Mr. Sikorski. Mr. Chairman, I was just going to comment, if I were doing this to the taxpayers, I would have trouble sleeping at night, too. I think they got a Perfect Sleeper and a good piece of plywood in the process there.

Mr. Dingell. I might add, somewhere there is a statement in Shakespeare which says, "Uneasy sleeps the head that wears the crown," if I am correct.

Who is Shepherd?

Mr. MacDonald. He is the gentleman that handles all the office supplies and furniture and things like that.

Mr. Dingell. All right.

He also developed the claims at Electric Boat, did he?

Mr. MacDonald. No, Mr. Chairman.

Mr. Dingell. Wasn't E.W. Shepherd a gentleman who headed the team at Electric Boat that put together the $544 million claim in the 688 program in 1976?

Mr. MacDonald. I'm sorry. My answer to your question, Mr. Chairman, had to do with this particular——

Mr. Lewis. He is talking about Shepherd.

Mr. MacDonald. You are talking about E.W. Shepherd?

Mr. Dingell. E.W. Shepherd headed the team at Electric Boat that put together the $544 million claim on the 688 program in 1976, is he not?

Mr. MacDonald. He may have been at that time.

Mr. Dingell. I'm trying to figure out, is this the same Shepherd? In 1980, he is buying mattresses; and in 1976, he was putting together a claim for $544 million on the 688 boat program?

Mr. **MacDonald**. He may have worked on that claim back at that time. But currently—if it is the same Shepherd—he is manager of office services.

Mr. **Dingell**. Can you inform us as to whether it is the same E.W. Shepherd? That is not an uncommon name, but E.W. Shepherd is a relatively uncommon name because it means there is only one of the Shepherds.

Mr. **MacDonald**. Yes; we will.

I am advised it is the same person.

Mr. **Dingell**. The Chair is going to recognize the gentleman from Oregon, Mr. Wyden.

Mr. **Wyden**. Thank you, Mr. Chairman.

I just want to finish up a matter we dealt with earlier, Mr. Lewis, with respect to these overseas payments. I'm still much troubled by the vagueness and undefined nature of what seems to me to be very large payments.

I sent down to the desk—I believe you have it—a copy of the $220,000 check endorsed by General Yoon dated November 19, 1982. I want to use this specific case to see if you can elaborate a little bit on the way you all do business overseas.

In September 1982, General Dynamics entered into a consulting arrangement with General Yoon and his firm, Buyeon. In November 1982, General Dynamics changed how it paid General Yoon. Instead of following the established practice of regular bank transfer, a check that was dated November 19, 1982 was delivered to General Yoon in Korea; thereafter, it was cashed in a Paris bank on December 21, 1982.

Now, my question to you is, my first one: Why was the practice of bank transfer changed in this case?

Mr. **Lewis**. I don't know, Mr. Wyden.

Mr. **Wyden**. Why was the general given the check?

Mr. **Lewis**. Because—presumably because we had a contract and he submitted bills, or it was his retainer. I'll be pleased to give you the records of Buyeon through the years.

Mr. **Wyden**. We have asked, and the chairman asked specifically, for a very substantial list of the foreign consultants that are being paid by General Dynamics for doing all this very nebulous activity, and it just seems to me when something like that—very large sum of money changes hands and is transferred under an arrangement without any explanation at all, the taxpayers deserve a little bit more——

Mr. **Lewis**. You say there is no explanation, Mr. Wyden. I didn't say there was no explanation. I said I didn't know it, why they would change from a bank transfer to a check, Chase Manhattan bank check, to Buyeon. And why he cashed it in one location relative to another, I don't know. I don't have any idea whether this was mailed to Paris or mailed to Seoul, Korea.

We would be glad to find out for you and tell you.

Mr. **Wyden**. But these are pretty large sums of money to be landing all over the world.

Mr. **Lewis**. There is nothing large about—where it lands doesn't make it larger or smaller. If the man requests payment in one form or another, and it is legal and appropriate, what difference does it make?

Mr. **Wyden**. Well——

Mr. **Lewis**. As long as there are very careful records kept. And I notice this record shows what appears to be the front and the back of the check.

Mr. **Wyden**. Why would you all stop doing the ordinary bank transfer? My question to you is, all of this seems, if not to be money laundering, to seem like something very much designed to hide——

Mr. **Lewis**. If you are going to launder money, you wouldn't put Buyeon's name on the check and keep a record of it front and back, signed by Mr. Yoon, account number so and so, and all that.

Mr. **Wyden**. Frankly, Mr. Lewis, we have seen such incredible incompetence——

Mr. **Lewis**. There is nothing incredible about this except the way you describe it.

Mr. **Wyden**. Well, my constituents put me and other Members of Congress here to ask tough questions——

Mr. **Lewis**. I believe that is fair.

Mr. **Wyden** [continuing]. About very large payments, undefined, moving around the world to Paris bank accounts for completely undocumented activities. That is why we ask the questions.

Mr. **Lewis**. Is there some requirement that you feel it is appropriate that there be a memorandum written with respect to every check that is written—this one is $125,732, is the number on the check—that we should have a document on why it was mailed through the Chase instead of through the Bank of America, or whatever?

Mr. **Wyden** We would like some indication——

Mr. **Lewis**. Why don't you ask for it?

Mr. **Wyden**. I have.

Mr. **Lewis**. I will be glad to give it to you.

Mr. **Wyden**. And we have already heard very serious charges have been made by Mr. Veliotis and——

Mr. **Lewis**. And to what do you attribute——

Mr. **Wyden** [continuing]. And you have very candidly answered them. But on these many other matters both the chairman and I have asked about with respect to overseas payments, we have not gotten any such detail. We ought to have it. I think the taxpayers deserve to have that.

Mr. **Lewis**. I told you we would send you a—I told somebody we would send you a very thorough list of these payments and the contracts and the definition of his duties, historical——

Mr. **Wyden**. The subcommittee will be very eager to receive those documents.

My own view is that the company is going to be asked to make very substantial payments back to the Government as a result of our examinations because I think there are very highly questionable payments involved.

Thank you, Mr. Chairman.

Mr. **Dingell**. The Chair thanks the gentleman.

The Chair recognizes the gentleman from Minnesota.

Mr. **Sikorski**. Thank you, Mr. Chairman.

Just two household matters, Mr. Lewis. When you were here on February 28, you were asked to provide the subcommittee with your notes from your August 7, 1981, meeting with Mr. Meese at the White House. We have not received those notes, and we would like to renew that request.

Mr. **Lewis**. I didn't—I don't believe I had any notes. I think I said, if I remember reading the transcript, that we had a white paper or something. I don't remember saying that we had notes. Did I?

Mr. **Sikorski**. Would you provide us with any notes, minutes, tapes, any electronic or written reconstruction of what occurred at that meeting, including this white paper and anything else?

Mr. **Lewis**. Yes.

They say they don't remember the request, but we will.

Mr. **Sikorski**. OK.

Mr. **Lewis**. The answer is, yes.

Mr. **Sikorski**. We appreciate your cooperation. There has been a growing relationship between our people and your people in exchanging things. One point that has been brought to my attention is that your counsel at Quincy, Carter Eltzroth, has been wholly unwilling to talk with our people about the allegations that many have made, including you, about Mr. Veliotis, and as he was head of that Quincy Shipyard and then up at Electric Boat. Would you instruct him to meet with us, as you have met with us, so we can clean that up?

Mr. **Lewis**. Mr. Duesenberg says that somebody from the committee called Eltzroth yesterday; he didn't know who it was, and he wasn't responsive I guess. Was it you?

Mr. **Dingell**. That is correct; it was Mr. Stockton.

Mr. **Lewis**. I will ask Mr. Duesenberg to dig into it and try to provide a response. [See letter, p. 649.]

Mr. **Dingell**. We will be happy to have staff members, in dealing with your folks, identify the person that they desire to have called and the phone number they should call so they can cooperate.

We do have a little problem, you must understand, sir, and that is, not only do we have the problem with respect to Mr. Eltzroth, but your Washington, DC, office has apparently instructed the staff here, at least the secretaries, that they are not to be interviewed by our staff.

Mr. **Lewis**. My understanding of that issue was that our staff, people that have—that are responsible for all these business expenses, and so forth, and do the work and have the meetings and work with the people from the divisions and all that—were available and ready and had a date with the committee staff and were ready to go, and at some reasonably short time before that those meetings were canceled and we were requested to provide some clerical and secretarial people, and our counsel felt that was quite inappropriate.

Now, on advice of counsel, they declined to do that and we feel that it's unfair to talk to people who have no authority to do things. They are in the categories that I described.

Mr. **Dingell**. Mr. Lewis, I appreciate your counsel's interest and concern for the corporation. I must observe to you that the decision as to who will be interviewed in the course of an inquiry by the committee lies with the chairman and with the committee and the staff acting under the direction of the committee and under the direction of the Chair.

If you have a reason, which you can cite to us, which is appropriate in the way of a legal inability on the part of this committee or its staff to direct that any person we might choose to have interviewed shall be interviewed, we will be delighted to hear it and if it meets the necessary tests the committee will, of course, treat it with the proper degree of respect.

The Chair observes that I am unaware of any power on the part of yourself or the corporation to deny this committee and its staff, acting properly, to interview any employee of any Government contract or anywhere. Now, having said that, I will be delighted to have you cite any proper authority for withholding any person or any document from the scrutiny of this committee.

Mr. **Lewis**. Well, I think we have turned over every piece of material that you have asked for, Mr. Chairman. I will ask counsel again why they feel that it is inappropriate to interview these people while not interviewing the people who are making the decisions that these people are working under.

Mr. **Dingell**. We have no objection to hearing from the persons who make the decisions upon which the staff and clerical persons work. We have made a determination, however, that it's the wish of the Committee and the wish of the chairman that we should hear the testimony also or at least have interviewed the staff personnel in the Washington office, and perhaps elsewhere. Again, I reiterate to you the expression of the Chair that we are fully prepared to hear any proper authority that you can cite for withholding those persons from being interviewed by this committee.

If you have none, we will expect, of course, that the prohibition on that shall be forthwith dropped and that the cooperation between General Dynamics and this committee shall improve significantly by presentation of those persons for testimony, or for interview by staff as the need requires.

Mr. **Lewis**. I understand that and I will get you an answer very quickly.

Mr. **Dingell**. I believe that will be helpful. The Chair will await your submission of that and it may mean that certain additional testimony by yourself or Mr. MacDonald will be required after we have had a chance to review the staff interviews or employee testimony that is not at this time available to us.

The gentleman from Oregon.

Mr. **Wyden**. The only thing I would say, Mr. Lewis, I think this is a perfectly reasonable request from the chairman. I think this is a central way that the committees go about conducting their business. Is that out of line in your view?

Mr. **Lewis**. I don't know how to answer that. I know these people get terrified when they—the lower level, the more fear there is that they don't have any control over what they are doing, and they are afraid they are going to be booby-trapped. That is a personal feeling. I have never heard anybody say that.

Mr. **Dingell**. We send——

Mr. **Lewis**. That is not our official position, Mr. Chairman, I am merely trying to——

Mr. Dingell. I am not about to castigate you for that statement. I will simply observe we send our most mild mannered investigators to deal with your personnel.

The gentleman from Minnesota.

Mr. Sikorski. I might comment that through the EPA investigation we found that the people at the levels we are talking about know a lot more than people assigned to them, and are quite willing to assist and to tell the truth. My own observation, as we got down to the secretarial and clerical levels in the EPA, is we found some incredibly dedicated people who were interested in getting to the bottom of problems that were there and were anything but intimidated by the process. And, in the process it was a lot more intimidating in that instance because we were in closed session because of the refusal to provide documents. We are talking about staff interviews, just as you willingly undertook.

Thank you, Mr. Chairman.

Mr. Dingell. Gentlemen, the committee has kept you here a long time. We appreciate your patience, and we commend you, Mr. Lewis, for the statement you made at the beginning of the proceedings.

The committee will review the record and ascertain what further action should be taken. We thank you both, gentlemen.

The committee will stand adjourned until the call of the Chair.

[Whereupon, at 4:15 p.m., the subcommittee adjourned, to reconvene at the call of the Chair.]

[The following material was received for the record:]

NINETY-NINTH CONGRESS

JOHN D. DINGELL, MICHIGAN, CHAIRMAN

RON WYDEN, OREGON
DENNIS E. ECKART, OHIO
JIM SLATTERY, KANSAS
GERRY SIKORSKI, MINNESOTA
JAMES H. SCHEUER, NEW YORK
JAMES J. FLORIO, NEW JERSEY
THOMAS A. LUKEN, OHIO
JOHN BRYANT, TEXAS
HENRY A. WAXMAN, CALIFORNIA
RICHARD C. SHELBY, ALABAMA

JAMES T. BROYHILL, NORTH CAROLINA
BOB WHITTAKER, KANSAS
THOMAS J. BLILEY, JR., VIRGINIA
MICHAEL G. OXLEY, OHIO
MICHAEL BILIRAKIS, FLORIDA
DAN SCHAEFER, COLORADO
FRED J. ECKERT, NEW YORK

MICHAEL F. BARRETT, JR.
CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, DC 20515

ROOM 2323
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 225-4441

April 16, 1985

Mr. David S. Lewis
Chairman of the Board
General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 62015

Dear Mr. Lewis:

As a follow-on to the appearances of you and Gorden E. MacDonald before the Subcommittee on Oversight and Investigations on February 28 and March 25, 1985, it is requested that the following information be provided:

1. All correspondence between you and your outside counsel, Albert Jenner, regarding the Lester Crown bribery and embezzlement matter and Mr. Jenner's efforts to arrange for immunity for Mr. Crown.
2. The agreement that you referred to on February 28 between Mr. Jenner and the Justice Department prosecutor concerning the Lester Crown case.
3. Copies of letters referred to by Mr. MacDonald on February 28 concerning gifts for Admiral Rickover.
4. A copy of the report on the matter pertaining to the gifts to Admiral Rickover which, you stated on February 28, was recently prepared by your outside attorney Thomas Edwards.
5. The date when Admiral Rickover's audit team arrived at Electric Boat. Mr. MacDonald, on February 28, advised that he did not have the date with him.
6. A copy of General Dynamics' policy mentioned by Mr. MacDonald on February 28 against giving gifts. Was this policy in effect at the time gifts were given to Admiral Rickover?

7. Mr. MacDonald, on February 28, mentioned that it was a violation of the company practice for the gifts to have been given to Admiral Rickover. What penalties does General Dynamics impose when company policy or practice is violated? Describe the actions that General Dynamics took against Mr. MacDonald and Mr. William Pedace.

9. Describe General Dynamics' policy toward charging the taxpayers for charitable contributions made by the Corporation.

10. A copy of your one-page position paper and all other records that you used in your August 7, 1981 White House meeting with Mr. Meese and all notes and records produced as a result of the meeting.

11. You testified on March 25 that General Dynamics is hard at work developing new policy statements and procedures to assure that those accounts submitted to the Government for reimbursement are appropriate. Please furnish copies of these new policy statements and procedures.

12. You testified on March 25 that General Dynamics will voluntarily remove approximately $23 million from your outstanding overhead proposals. Has this action been taken? Please keep the Subcommittee informed about the progress of this audit.

13. All prior and subsequent contracts together with the amounts and evidence of all sums paid to either Buyeon Co., Ltd. or General E. Y. Yoon.

14. A statement, with supporting documents, of procedures taken to insure that no violations of the Foreign Corrupt Practices Act occurred in connection with the agreement with Buyeon Co.

15. Mr. MacDonald indicated on March 25 that he would check whether the money paid to Buyeon Co., Ltd. and General Yoon was charged to the Federal Government as an allowable expense. Please furnish the results of Mr. MacDonald's inquiry.

16. Submit complete information on all other General Dynamics overseas consultants or agents for the years 1975 through 1984. Include the purpose of employing each consultant or agent, the amounts paid, the method of payment, justification for the payment, and whether these costs were charged to the Federal Government as allowable expenses.

17. The report of investigation conducted by the General Dynamics Security and Legal Departments into the matter pertaining to the classified and sensitive documents improperly furnished to P. Takis Veliotis.

18. The memorandum of facts which you mentioned on March 25 concerning the Lester Crown clearance issue.

19. Documentation which supports Mr. MacDonald's claim on March 25 that the $546 boxspring and mattress was for Mr. Veliotis and not for Mr. Henry Crown.

The Subcommittee also requests being furnished, without further delay, your legal analysis regarding making certain secretaries of the Corporation's Washington Office available for interviews by the Subcommittee staff. Also, the Subcommittee requests that your counsel at the Quincy yard, Mr. Carter Elizroth, be made available for interviews by the Subcommittee staff. We sincerely hope that there will be no difficulty in your honoring both of these requests.

It is requested that a complete response to this request be furnished by Friday, April 26, 1985. Should you have any questions, please contact Michael Barrett or Peter Stockton of the Subcommittee staff at (202) 225-4441.

Sincerely,

John D. Dingell

John D. Dingell
Chairman
Subcommittee on
Oversight and Investigations

DYNAMICS

Washington Operations
1745 Jefferson Davis Highway, Arlington, Virginia 22202
703 553-1200

9 May 1985

RECEIVED

MAY 9 1985

Subcommittee on
Oversight and Investigations

The Honorable John D. Dingell
Chairman
Subcommittee on Oversight and
  Investigations of the
  Committee on Energy and Commerce
Washington, DC 20515

Dear Chairman Dingell:

A. Pursuant to your request of 16 April 1985, the following information is submitted. Our responses are numbered in accord with the numbered paragraphs of your letter.

1. No correspondence between Mr. David S. Lewis and Mr. Albert Jenner has been found regarding the Lester Crown bribery and embezzlement matter and Mr. Jenner's efforts to arrange for immunity for Mr. Crown in 1973.

2. Accompanying this correspondence are (i) a copy of a letter agreement dated August 10, 1973, addressed to Mr. Thomas P. Sullivan of Jenner and Block law firm, Chicago, and signed by Mr. James E. Thompson, United States Attorney and (ii) a copy of an order of the United States District Court for the Northern District of Illinois, Eastern Division in Case No. 73 GJ 1495 with related petition. Similar instruments were executed with respect to Mr. Lester Crown. In connection with the immunity granted by these documents, Mr. Jenner advised that confidentiality was to be maintained as to matters presented to the Grand Jury. This obligation is not reflected in any written agreement.

3. Accompanying this letter, as the response to your paragraph 3, are a copy of a letter dated February 15, 1978 from P. T. Veliotis to D.S. Lewis, a copy of a letter dated January 31, 1978 from W. B. Pedace to P. T. Veliotis and a copy of a letter dated January 31, 1978 from Harvey N. Mallove to William B. Pedace.

4. Mr. Lewis' reference to a "report" presented by Mr. Edwards to the Navy requires clarification. Mr. Edwards delivered an oral summation of General Dynamics' position at the Navy hearing. Following the hearing the company filed a post-hearing brief

concerning the issues raised at the hearing. No other "report" was submitted by Mr. Edwards. The proceeding before the Board is still pending, and Mr. Edwards' presentations are part of that record. The Board conducted the proceeding as a closed hearing, at least pending final determinations. Under the circumstances, we do not feel at liberty to release any of this material.

5. It appears that the Navy Audit Team, referred to in the testimony of Mr. MacDonald, was at Electric Boat the week of June 13, 1977.

6. Accompanying this letter, in response to your item 6, is a copy of the Company's Executive Memorandum No. 75-6, dated 15 December 1975. It was in effect at the time gifts were given to Admiral Rickover in the summer of 1977.

7. The subject gifts to Admiral Rickover were given in the summer of 1977. Mr. Lewis testified that his memory was that he heard about these gifts in early 1978. This was long after the events occurred and, having been satisfied that similar instances had not been repeated and being assured that they would not be, there was no need for any disciplinary action, and none was taken.

9. It is the General Dynamics' policy that charitable contributions made by the corporation are not charged to government contracts.

10. No documents have been found responsive to item 10.

11. Enclosed is a copy of a new Corporate Policy and Procedure, CCP-3-3, effective 25 April 1985 submitted in response to your item 11.

12. General Dynamics has advised the ACO of the withdrawal of $23.8 million from its outstanding overhead proposals.

13. In response to item 13, accompanying this letter are copies of the contracts between Buyeon Company, Ltd. and General Dynamics, and a schedule covering fees and expenses paid to Buyeon.

14. The Company requires as a standard provision of its foreign consulting agreements that a consultant comply with the applicable laws of the United States, including the Foreign Corrupt Practices Act. The consultant is also contractually obligated to comply with the applicable laws of the country of its domicile. Both obligations applied to Buyeon. It is a practice of the Company to make payments to its foreign consultants to their in-country address,

and it is a practice to require for the reimbursement of expenses that a foreign consultant submit supporting documentation in connection with expense reimbursement requests.

15. Prior to March 12, 1979, all marketing expenses (whether for DoD commercial or foreign) were allocable to all contracts. Accordingly, foreign selling expenses were allocable in the same manner as DoD domestic requirements.

Effective with DoD contracts entered into after March 12, 1979, Defense Acquisition Regulations (DAR) prohibited allocation of foreign selling expenses to DoD contracts for domestic requirements. The expenses continued to be allowable for allocation to DoD contracts for FMS requirements and, of course, for direct sales.

Because the March 12, 1979, DAR change caused an inequitable distribution of overhead expense. General Dynamics and other companies in the defense business did not immediately change its accounting procedures to accommodate the change, in continued anticipation of a retroactive DAR change. GD did recognize for forward pricing purposes and for contract settlement purposes that such costs would have to be adjusted for DoD contracts for domestic requirements. Moreover, continuing and extensive dialogue occurred between ourselves, the DCAA, and the Contracting Officer on this subject. All parties recognized that any necessary adjustments would be handled in the conatract settlement process. Such adjustments have in fact been accomplished for settled years and for forward pricing purposes.

Effective January 1, 1984, GD accounting procedures were revised at Corporate Office and the affected divisions to accommodate the DAR requirement. Thus, beginning in 1984, foreign selling expenses are allocated only to divisions which have foreign cost input. The divisions, in turn, allocate the cost only to foreign contracts and DoD contracts entered into prior to March 12, 1979. For the years 1983 and prior, the DAR allocation requirements will be met by adjustments in the final settlement of overhead for each of those years in accordance with understandings reached with the contracting officers.

Foreign consultants not only provide services relative to foreign selling, but also become involved in contract administration once a contract has been awarded. Nevertheless, no part of foreign consultants' fees will be charged to DoD contracts entered into after March 12, 1979-the effective date of the DAR prohibition. This will be handled in both our accounting treatment and contract settlements. All contracts entered into prior to March 12, 1979, will take their allocable share of total marketing expenses, including DoD domestic, commercial and foreign.

In summary, payments made to Buyeon Co., Ltd. for consulting fees and expenses were in fact allocated properly to all DoD contracts entered into prior to March 12, 1979, consistent with the DAR.

16. The preparation of data covering other foreign consultants is not yet complete. When compiled, the data will be submitted.

17. The Company has been working with the Naval Investigative Service in respect to the subject of your paragraph 17. There is no investigation report on the subject of this item to submit to you.

18. Accompanying this letter, as a response to item 18 of your letter, are a copy of a statement which was provided to your committee at the hearing of March 25 and a copy of the letter 2--referred to in that statement.

19. The testimony of Mr. MacDonald relevant to your item 19 was based upon knowledge and recollection.

B. In answer to your inquiry about making the clerical personnel of our Washington office available for interviews by your staff, the following describes what happened earlier.

Approximately 15 November 1985, one of your staff called to say that during the week of 3 December 1984, staff wanted to interrogate ten people, by name, from our Washington office on the subject of gifts to executive branch personnel. Our attorneys told your staff that the requested people would be available.

The ten persons named are professionals, with the exception of one clerical person who has collateral administrative duties. The latter person had been interviewed twice by a member of your staff, to his satisfaction, and provided all requested information.

Our lawyers called your staff to reiterate that the ten people requested would be made available and to request a meeting with your staff to discuss scope and scheduling. They finally met on Friday, 30 November 1984 and, for the first time, your staff said they didn't want to interrogate the previously agreed to list of people the next week. Rather than proceed as agreed, your staff wanted to interrogate beginning Monday a total of seven secretaries, plus the aforementioned person who had already given all requested information on her administrative duties. In addition, your staff requested from this new list of persons copies of all documents, ledgers, notes, calendars and other records relating to the subject matter. There was no other event concerning interviewing secretaries.

C. Concerning Mr. Carter Eltzroth and your possible interest in interviewing him, upon your request he will be made available at a mutually agreeable time.

Sincerely,

John J. Stirk

John J. Stirk
Corporate Director
Legislative Affairs and
Government Relations Counsel

Enclosures

August 10, 1973

Mr. Thomas P. Sullivan
Jenner & Block
One IBM Plaza
Chicago, Illinois 60611

Dear Mr. Sullivan:

This office has received your letter of August 10, 1973. A copy of that letter is attached and is identified as Attachment No. 1. After reviewing the information in the possession of your clients as presented to this office by your firm, we are prepared to enter into an agreement with your clients as follows:

1. In return for the complete and full cooperation of Material Service Corporation and all of its employees in this matter, we will not prosecute Material Service Corporation, its parent company and its affiliated companies, and the persons listed in your letter of August 10, 1973 concerning the matters they will provide information about. This agreement not to prosecute is conditioned as follows:

a. Your clients will testify truthfully and completely on this matter before the Federal Grand Jury and at any trial or trials if an indictment or indictments are returned.

b. You and your clients will provide all documents in their possession and/or under their control which pertain to this matter in any way whatsoever.

c. Your clients will cooperate fully with this office and will discuss this matter with members of this office and any other Federal investigative agency as we deem appropriate.

2. If any of your clients fails to cooperate with this office and/or fails to testify truthfully in this matter, our agreement not to prosecute that person will no longer be binding, and this office may

prosecute him for the various violations involved and any other violation which occurs as a result of his failure to be truthful and to cooperate fully with this office. The failure by one or more persons to cooperate and/or testify truthfully in this matter shall not affect the grant of immunity made to the other persons mentioned in your letter of August 10, 1973 (Attachment No. 2).

Very truly yours,

JRT

JAMES R. THOMPSON
United States Attorney

AGREED:

55

THOMAS P. SULLIVAN, One of the Attorneys
for the persons listed below

LESTER CROWN

RON BLICKENSDORFER

FRANK BURKE

ML
MAURICE LAUWERKINS

JAMES MCBRIDE

EDWIN MYERS

GERALD NAGLE

JOHN SENDE

ARNOLD SOBEL

LAW OFFICES
JENNER & BLOCK
CHICAGO, ILLINOIS 60611

August 10, 1973

Mr. James R. Thompson
United States Attorney
219 S. Dearborn
Chicago, Illinois 60604

Attention: Mr. Samuel K. Skinner

Dear Sir:

After subpoenaes were served upon certain clients of this firm, members of the firm interviewed various persons employed by Material Service Corporation. As a result of these interviews, it is our opinion that these employees have information concerning criminal activity by various companies and individuals throughout Illinois. These persons are willing to cooperate fully with your office in the investigation of these matters upon the granting of immunity by your office and the United States District Court to them and to Material Service Corporation, a Delaware corporation, its parent company and its affiliated companies.

The persons who we represent and who we believe have available information include:

Lester Crown
Ron Blickensdorfer
Frank Burke
Maurice Lauwereins
James McBride
Edwin Myers
Gerald Nagle
John Sende
Arnold Sobel

Yours truly,

Thomas F. Sullivan

Thomas F. Sullivan

TFS:K

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

IN RE:) No. 73 GJ 1495
A WITNESS BEFORE THE SPECIAL)
APRIL, 1973 GRAND JURY)

PETITION FOR ORDER GRANTING IMMUNITY PURSUANT TO SECTION 6002, TITLE 18, UNITED STATES CODE, TO COMPEL TESTIMONY BEFORE THE SPECIAL APRIL, 1973 GRAND JURY

Now comes the UNITED STATES OF AMERICA, by JAMES R. THOMPSON, United States Attorney for the Northern District of Illinois, and states as follows:

1. The Special April, 1973 Grand Jury for the Northern District of Illinois is now conducting an investigation of alleged illegal activities in said District; said investigation involves possible violations of Title 18, United States Code, Section 1951, 1952, 1341, 1001 and 371

2. Maurice Lauwereins has not appeared before the said Grand Jury, but has been served with a subpoena commanding his appearance before said Grand Jury. has indicated that in his appearance before the Grand Jury, he will assert his privilege against self-incrimination under the Fifth Amendment to the United States Constitution in response to questions pertinent and material to the investigation of the Grand Jury.

3. It is my judgment as United States Attorney for the Northern District of Illinois that the testimony of in regard to the above-described investigation before the said Grand Jury is necessary to the public interest, as is the production of books, papers or other evidence he may have in his possession or control. [illegible] [illegible] obtained approval from the designated representative of the

Attorney General of the United States to make application to this Court that be instructed by the Court to testify and produce evidence before the Grand Jury; all in accordance with the terms and provisions of Title 18, United States Code, Sections 6002 and 6003. A copy of a letter from the Assistant Attorney General of the Criminal Division, Department of Justice, setting out the above-mentioned approval, is attached to this petition.

WHEREFORE, the petitioner prays the Court enter an Order instructing to return forthwith to the said Grand Jury to testify and produce evidence before the said Grand Jury, subject to the provisions of 18 U.S.C. 6002 -- that no testimony or other information compelled under the Order (or any information directly or indirectly derived from such testimony or other information) may be used against him in any criminal case, except a prosecution for perjury, giving a false statement, or otherwise failing to comply with the Order.

Respectfully submitted,

JAMES R. THOMPSON
United States Attorney

KLS:ah

Assistant Attorney General
Criminal Division

[redacted]

Department of Justice
Washington 20530

AUG 10 1973

Mr. James R. Thompson
United States Attorney
Chicago, Illinois

Re: Grand Jury Investigation

Dear Mr. Thompson:

Your request for authority to apply to the United States District Court for the Northern District of Illinois for an order or orders requiring   to give testimony or provide other information pursuant to 18 U.S.C. 6002-6003 in the above matter and in any further proceedings resulting therefrom or ancillary thereto is hereby approved pursuant to the authority vested in me by 18 U.S.C. 6002-6003 and 28 C.F.R. 0.175.

Sincerely,

Henry E. Petersen
HENRY E. PETERSEN
Assistant Attorney General

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

IN RE:) No. 73 GJ 1595
A WITNESS BEFORE THE SPECIAL)
APRIL, 1973 GRAND JURY)

O R D E R

This matter coming on to be heard on the petition of the UNITED STATES OF AMERICA, by JAMES R. THOMPSON, United States Attorney for the Northern District of Illinois, for an Order instructing to testify and to produce evidence before the Special April, 1973 Grand Jury or its duly authorized agent, said has stated that if he were a witness before the said Grand Jury, he would assert his privilege against self-incrimination, and the Court having considered said petition of the United States Attorney and the letter approving the application of this Court from the Assistant Attorney General of the Criminal Division, United States Department of Justice, attached to said petition:

IT IS HEREBY ORDERED that shall not be excused from testifying or from producing books, papers or other evidence before the said Grand Jury on the ground that the testimony or evidence required of him may tend to incriminate him, and that shall proceed forthwith to the place of meeting of the said Grand Jury and answer the questions which he is asked and produce what evidence is required of him without further asserting there his privilege against self-incrimination, and it is FURTHER ORDERED that no testimony of/the witness, Maurice [illegible] and no documents produced by may be used under this Order (or any information directly or indirectly derived

Entered 6-13-73 Impounded

from such testimony, documents or other information) may be used against him in any criminal case, except a prosecution for perjury, giving a false statement or otherwise failing to comply with this Order, in accordance with the provisions of Section 6002, Title 18, United States Code.

ENTER:

/s/ BAUER
U. S. DISTRICT COURT JUDGE

Dated at Chicago, Illinois
this 13 day of Aug., 1973

MLS:sh

GENERAL DYNAMICS
Electric Boat Division

GENERAL DYNAMICS
PRIVATE INFORMATION

MEMORANDUM

General Counsel
NOV - 1 1984
Office

TO: D. S. Lewis

DATE: February 15, 1978

FROM: P. T. Veliotis

FILE NO.:

SUBJECT: Special Disbursements

REFERENCE / Enclosures:
(a) My memo to you dated January 27, 1978
(b) W. B. Pedace memo dated 31 January 1978 and attachments
(c) E. B. Letter to Arthur Andersen and Co., dated 9 August 1977
(d) F. W. McNally letter dated February 11, 1978

During our discussions in Groton on 10 February 1978 concerning certain air charter matters, Ref. (a), I informed you that the Division was also reviewing certain other disbursements that had been made prior to my becoming General Manager. This review, like the report to you that appears in Ref. (a), was the result of unsolicited and unexpected information that has been volunteered to me by W. B. Pedace, Director of Special Services.

In November 1977, Mr. Pedace volunteered to me that he had information concerning certain jewelry matters which he would be willing to report privately. In this regard, Mr. Pedace told me, quite unrelated to anything we were discussing, that he "would not commit perjury". I told him that I had no interest in his doing so and asked him why he had volunteered the remark. He stated, in substance, that Mr. MacDonald had told him that he might have to do so in connection with the jewelry matters.

Mr. Pedace has now memorialized certain of the information he had orally conveyed, and I enclose a copy of his above-referenced memorandum thereon, Ref. (b), including its enclosures. Previously, on 9 August 1977, the Division reported to Arthur Andersen and Co., Ref. (c), that, among other things, "the Division has no 'sensitive' receipts or disbursements....". See paragraph 3 of Ref. (c). I am enclosing a copy of Ref. (c) in case this matter might warrant review by those responsible for preparation of certain of the Corporation's reports and information statements.

GENERAL DYNAMICS
PRIVATE INFORMATION

REV. 12/[illegible]

BEST COPY AVAILABLE

GENERAL DYNAMICS
PRIVATE INFORMATION

During our 10 February 1978 discussions I also informed you that we were reviewing the matter of a disbursement by Mr. Pedace to Mr. F. McNally, Director of Industrial Relations. I enclose a copy of Mr. McNally's above-referenced memorandum, Ref. (d), concerning this subject. For unrelated reasons I have been intending to terminate Mr. McNally's employment with the Division as soon as I am satisfied that we have found someone who appears to be a suitable replacement. The above-referenced memorandum does not dissuade me from this intention but I thought you should be aware of it in light of Mr. Pedace's involvement.

I am also concerned about Mr. Pedace's continued employment with this Division. In my judgment, Mr. Pedace has made unusual and abnormal efforts to report information to me of the sort discussed in this memorandum to you and its enclosures. Such efforts may result from a belief by Mr. Pedace that they will assist him in his employment, and may constitute an effort by him, of a most inappropriate character, to ensure the continuation of that employment. I would prefer not to have Mr. Pedace remain employed by this Division.

More generally, it appears from comments made to me by A. M. Barton, Division Comptroller, and J. Wornom, Public Relations Director, that other employes of this Division are aware of some of the matters referred to in this memorandum, including the jewelry matters. Our preliminary review of accounts for unreimbursed expenditures in 1977 prior to 24 October suggests other unusual disbursements of a possibly similar character, reflecting an absence of professional controls and judgment. (Because of severe time limitations on the only person I can entrust with such a review, it has remained at a preliminary stage.) I do not know the number or extent of unusual or sensitive matters that may have occurred. However, the present atmosphere of rumor, innuendo, and offers by such persons as Mr. Pedace to provide unusual information, is quite unsatisfactory.

It is my strong recommendation that appropriate staff from the Corporation's internal audit group be assigned to review thoroughly the disbursements described in this memorandum, including all information of irregular actions that may be disclosed as a result.

GENERAL DYNAMICS
PRIVATE INFORMATION

Ref. (b)

GENERAL DYNAMICS
Electric Boat Division

MEMORANDUM

TO: P. T. Veliotis

DATE: January 31, 1978

FROM: W. B. Pedace

FILE NO.:

SUBJECT: Gifts for ADM. H. G. Rickover

REFERENCE:

In early November, 1977 you questioned me regarding the arrangements that I normally made for ADM. Rickover when he visited Electric Boat. The conversation took place in Mr. Togneri's office with him present. At that time I voluntarily told you that in addition to the "normal" arrangements for Rickover, that I had also been directed by Mr. MacDonald to provide some rather unusual services for Rickover. I suggested that you and I could discuss these services in the privacy of your office. At that time you insisted that anything that I had to say, could be said in Mr. Togneri's presence. I continued on to relate that on a couple of occasions during 1977 that Mr. MacDonald had directed me to purchase jewelry for Mrs. Rickover. The following is as detailed account as I can remember regarding these incidents.

In June, 1977 Mr. MacDonald called me to his office to discuss an assignment. He told me that he wanted to buy some jewelry for Mrs. Rickover, that I was to use Company funds to buy it, charging to Entertainment of Division Guests and that I was to deliver it directly to ADM. Rickover in his Washington office. MacDonald indicated that it should be something nice, in the $400 to $600 range. I contacted Harvey Mallove for suggestions and he provided two (2) pair of earrings, one pair of 14K diamondearrings at $325 and another pair of 18K diamond earrings at $695. I returned to MacDonald's office with the earrings. He looked at them, picked the $695 pair and asked me to return the other pair to Mallove. He also told me to wrap the $695 pair and take them to ADM. Rickover's office and deliver them to him personally. The selected earrings were wrapped by Mallove and retained by me until ADM. Rickover was available. Before I left for Washington I contacted Rickover's secretary, Jean Scroggins to see if the Admiral would have a few minutes for me. She assured me that he would be in and would see me. I personally flew to Washington with the earrings. Before going to ADM. Rickover's office, I stopped in General Dynamics, Arlington, Va. office which is in the office building next to Rickover. I talked to Billy Kellum for a while until my appointment, then I left for Rickover's. Upon arrival at OB, Miss Scroggins, ADM. Rickover's secretary, escorted me to his office. After some brief discussions, I told the Admiral that I had something for him from Gorden MacDonald. He accepted the package, but did not open it in my presence.

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I returned to the GD office where I waited for my flight home. About an hour later I got a call at Mr. Kellum's office from Gorden MacDonald. He said that the Admiral liked the gift, but was mad that it was in a Mallove's box. He wanted a plain box. I hung up, asked Kellum if there was a jeweler nearby, which there was, and left to buy a plain jewelry box. I bought the box and delivered it to Miss Scroggins in ADM. Rickover's office. Then I returned to Groton.

At this point I was left with the problem of paying for the gift. I was told by Mallove that he could bill Electric Boat in such a way as to hide the earrings. While I did not like it, I agreed. Mallove suggested that he could bill me for ten (10) watches (not delivered) that I normally purchased from him for retirees. He billed Electric Boat for an extra $625 in watches, and said that he would make up the other $70 at another time. This inflated bill was paid by Electric Boat invoice $228825.

Approximately one month later, MacDonald called me to his office and told me to get another piece of jewelry for Mrs. Rickover. I went to Mallove's and returned with a jade pendant and a jade bracelet, both $430. I believe, and Mallove confirmed, he picked the pendant and I delivered that one to Rickover personally in the same manner as before. This item was paid for in the following way: I told Mr. D. Selby that I was on a special assignment for MacDonald and that I needed $500. I told him to fill out an Employe Expense Voucher for $500 which he did, I approved it and Selby picked up the money and gave it to me. Mr. Selby was not told what the money was for. I gave the money to Mallove to cover the $430 pendant and the $70 that still remained outstanding from the diamond earrings.

To the best of my knowledge the only people who knew what I was doing were MacDonald and I, and I suspect Mallove.

To the best of my knowledge, all of the information above is true and as accurate as my memory will permit.

W. B. Pedace

Ref. (b^1)

MALLOVE'S

Diamond Importers
74 CAPTAIN'S WALK
NEW LONDON, CONNECTICUT 06320
Jewelers since 1919
203/442-4391

January 31, 1978

Mr. William B. Pedace
Electric Boat Division
General Dynamics Corporation
Groton, Connecticut

Dear Mr. Pedace,

A review of our records shows that on June 2, 1977 you purchased a pair of diamond earrings for $695.00. We received a payment for Electric Boat's ten retirement watches and for $625.00 of the purchase price of the earrings. The check we received totaled $1284.00. It paid for the full amount of the ten watches and all but $70.00 of the balance on the earrings.

On July 21, 1977, you purchased a jade and diamond pendant for $430.00. On August 5, 1977 you paid us the amount of $500.00 which covered the full price of the jade pendant and the balance of the amount due for the earrings. The $500.00 was paid to us in cash.

We trust that the information contained herein covers any questions you may have about the transactions. Please feel free to call upon us for any other information we may have on this or other matters.

Very truly yours,

Harvey N. Mallove
MALLOVE'S

HNM:h

GENERAL DYNAMICS

EXECUTIVE MEMORANDUM
No. 75-6
15 December 1975

To: Division Managers, Subsidiary Presidents and Corporate Officers

Subject: Standards of Conduct

Enclosure: (1) Letter dated 2 December 1975 from William P. Clements, Deputy Secretary of Defense, and its two enclosures.

1. Enclosure (1) reaffirms the strong position taken by the Department of Defense to insure that high standards of conduct are maintained in all relationships between the DOD and Government contractor personnel. A perusal of the enclosed material will show that the directive originally issued in 1967 and modified in 1972 was further tightened up in 1975 to provide more specific direction to DOD personnel. The DOD increasingly emphasizes its concern about its personnel accepting gratuities from contractors and the revised directives define a gratuity as anything of more than trivial value.

2. This entire subject was discussed in detail with the heads of all General Dynamics' Divisions at the Quarterly Review Meeting on Thursday, 11 December 1975. At that time, it was clearly stated that it is General Dynamics' Corporate Policy to follow the letter and spirit of the directives outlined in Enclosure (1) and its enclosures. This Executive Memorandum is being transmitted to all Division Heads and Corporate Office executives as a written policy statement to make sure that this policy is clearly understood all up and down the line.

3. You are directed to take positive steps to see that all your personnel having direct contact with DOD personnel understand this policy and that they carry it out, without exception.

D. S. Lewis
David S. Lewis
Chairman

THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

December 2, 1975

Mr. David S. Lewis
Chairman of the Board
General Dynamics Corporation
Pierre Laclede Center
St. Louis, Missouri 63105

Dear Mr. Lewis:

I invite your attention to the enclosed Department of Defense Directive entitled: "Standards of Conduct" and to my memorandum of January 15, 1975.

These directives represent the position of the Department of Defense with respect to the acceptance of any gratuity by Department of Defense personnel from Defense contractors. The Department of Defense and representatives of private industry have a mutual responsibility in meeting the Defense requirements of our nation. In the accomplishment of this purpose, it is necessary that Defense personnel demonstrate absolute integrity in their dealings with contractors. Defense personnel must not under any circumstances violate or give the appearance of violation of the Standards of Conduct Directive.

We expect the cooperation of industry in the avoidance of conflict of interests on the part of Defense personnel and your people. We will appreciate your informing all your personnel, who deal with Department of Defense representatives, of the detailed requirements of Department of Defense regulations with respect to standards of conduct. Industry must stop tendering that which the recipient is prohibited from receiving.

Your cooperation in this regard will be appreciated.

Sincerely yours,

RECEIVED
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OFFICE OF
THE CHAIRMAN

Enclosure (1)
Executive Memorandum
No. 75-6
15 December 1975

THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

JAN 1[illegible] 1975

MEMORANDUM FOR: Secretaries of the Military Departments
Assistant Secretaries of Defense
Directors of Defense Agencies

SUBJECT: Standards of Conduct (DoD Directive 5500.7)

A recent newspaper article chronicled a Service sponsored "orientation tour" and implied that there was improper participation by Defense contractors.

The article illustrates a need for renewed attention to the provisions of DoD Directive 5500.7. While a technical conflict with the Directive's prohibitions probably did not exist, DoD personnel must avoid even the appearance of such a conflict.

In part the Directive states: "...DoD personnel will not solicit or accept any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value either directly or indirectly from any person, firm, corporation, or other entity which....(I)s engaged or is endeavoring to engage in procurement activities or business or financial transactions of any sort with any agency of the DoD...." "For the purpose of this section, a gift, gratuity, favor, entertainment, etc., includes any tangible item, intangible benefits, discounts, tickets, passes, transportation, and accommodations or hospitality given or extended to or on behalf of the recipient...."

Let me emphasize that these prohibitions are not a matter of degree -- there will be absolutely no relationship with Defense contractors which violates, or appears to violate the provisions of DoD Directive 5500.7.

We in the Department are the guardians of a public trust. To the extent that our relationships with Defense contractors are above reproach and we demonstrate impartiality and objectivity in our dealings with contractors, we will help to maintain that trust.

Your personnel should be reminded of the provisions of DoD Directive 5500.7 and your implementing regulations at least semi-annually to assure their full awareness of the need for compliance in all respects.

W. P. Clements Jr.

GENERAL DYNAMICS	EFFECTIVE 4/25/85	PAGE 1 OF 7	NUMBER 3-3
	RESPONSIBLE INDIVIDUAL/DEPARTMENT F. S. Wood/Corporate V.P. - Contracts and Estimating		
CORPORATE POLICY AND PROCEDURE	APPROVED		
SUBJECT	DETERMINATION OF OVERHEAD EXPENSES APPROPRIATE FOR ALLOCATION TO GOVERNMENT CONTRACTS		

PURPOSE

To establish guidelines for determining allowability for Government reimbursement of specific overhead expenses.

POLICY

1. For the Company to seek reimbursement from the Government, the specific cost must be both reasonable in nature and amount, allowable and allocable. Expressly unallowable expenses shall not be submitted to the Government for reimbursement.

2. Whenever an employee is authorized to travel or incur other business expenses for the benefit of the Company, his or her reasonable expenses will be paid or reimbursed by General Dynamics in accordance with existing policies and procedures.

3. The employee incurring the expense or obligation has primary responsibility for documenting and properly explaining/supporting his or her business expenses.

DEFINITIONS

Reasonable Cost - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. What is reasonable depends upon a variety of considerations and circumstances involving both the nature and amount of the cost in question. In determining the reasonableness of a specific cost, consideration shall be given to:

(a) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the company's/division's business or contract performance;

(b) The restraints or requirements imposed by such factors as generally accepted sound business practices, arm's-length bargaining, Federal and State laws and regulations, and contract terms and specifications;

(c) The action that a prudent business person, considering responsibilities to the owners of the business, employees, customers, the Government, and the public at large, would take under the circumstances; and,

(d) Any significant deviations from the established practices of the company that may unjustifiably increase costs.

Allocable Cost - A cost is allocable if it is assignable or chargeable to one or more functions, organizational subdivisions, contract or other work units on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it:

(a) Is incurred specifically for the contract;

(b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or,

(c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

Allowable Cost - A cost is allowable if it is reasonable, allocable and (i) specifically allowable under FAR or (ii) one which the Company has not elected to exclude from proposals for Government contracts.

Expressly Unallowable Cost - A cost is expressly unallowable if, under the provisions of an applicable law, FAR 32-205, or contract, it is specifically named and stated to be unallowable.

EXAMPLES OF ALLOWABLE COST

The following are examples of general categories of cost which are allowable unless specifically limited by the FAR:

- Employee morale, health, and welfare costs
- Labor relations costs
- Defense of claims by Government against contractor
- Recruitment (including advertising)
- Compensation (including fringe benefits)
- Travel
- Transportation
- Depreciation
- Insurance
- Manufacturing and production engineering
- Material and supplies
- Professional services/consultants
- Gains and losses from sale of depreciable property
- Rental costs
- Domestic selling costs
- Legislative liaison
- Corporate aircraft
- Urban league or other employment-related civic organizations

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- Company sponsored or supported events for personnel such as picnics, Christmas parties, open houses where all Company personnel are included
- State and local taxes
- Trade, business, technical and professional activities
- Economic planning cost
- Directors meetings, stockholders meetings, stock registry and transfer, proxy solicitation, and annual reports
- IRAD (Independent Research and Development) and B&P (Bid and Proposal) costs
- Civic and community relations activities
- Training and educational costs

EXAMPLES OF COST TO BE EXCLUDED FROM OUR PROPOSALS FOR ALLOCATION TO GOVERNMENT CONTRACTS

1. Expressly Unallowable - The following are examples of general categories of costs which are expressly unallowable, unless specifically limited by the FAR:

   - Fines and penalties
   - Institutional advertising
   - Donations (including educational and charitable)
   - Entertainment and social activities
   - Lobbying costs
   - Interest and financing costs (including excess of lease cost over purchase cost of computer equipment)
   - Bad debts
   - Acquisition and organization costs
   - Prosecution of claims against the Government
   - Defense of fraud proceedings
   - Patent infringement costs
   - Certain training and education costs
   - IRAD & B&P over negotiated ceiling for DOD contracts
   - Certain compensation costs, i.e., stock options, special pension or retirement benefits
   - Idle facilities
   - Losses on other contracts
   - Certain relocation costs, i.e., tax reimbursements, mortgage principal payments
   - Foreign selling expense (cannot be allocated to DoD contracts for domestic requirements)
   - Excess of first class airfare over business/coach class fares

2. Company-Elected Costs To Be Excluded - The following are (i) costs which may be perceived as personal expenses and which may be allowable, but by their description, would lead to an erroneous perception or (ii) costs which are usually questioned by Government auditors:

   - Memberships in groups that are primarily lobbying organizations
   - Club memberships and expenses, i.e., country, social, athletic, luncheon, officer

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- Use of Company facilities
- Spouse or other family expenses (except relocation)
- Alcoholic beverages/refreshments
- Award functions and expenses external to General Dynamics
- General news periodicals (except reception areas)
- Flowers (other than employee illness or bereavement)
- Personal clothing (purchase or rental)
- Credit card fees (except Company provided)
- Books not directly related to business function
- Exhibits - industrial and trade shows
- Air Force Association, Navy League, Association of U.S. Army
- Miscellaneous sundries while on travel
- Movies (hotel or other)
- Fraternal organizations
- Shoeshines
- Pet boarding
- Babysitting
- Spouse travel
- Voluntary Political Contribution Plan
- Air Shows - Paris, Farmborough, ASEAN, etc.

3. Not Properly Supported or Explained - Any cost for which supporting documentation is not provided, or explanation for incurrence is inadequate.

- Unreceipted expense where a receipt is required by Corporate or Division policy
- No reason or inadequate reason for trip or expense
- Time or subject sensitive (executive recruitment, internal reorganization)
- Hotel "No Show" bills

PROCEDURES

1. Responsibilities

   A. Employee Responsibilities - As part of the employee's claim for reimbursement, sufficient detail or supporting documentation must be submitted to permit a determination of allowability or unallowability of the cost for allocation to Government contracts.

   B. Supervisor Responsibilities - The person authorized to approve incurrence of the expense is responsible for the sign-off of expense reports or other payments and must review explanations and documentation for compliance with Procedure 1A.

C. Accounting Responsibilities - Accounting is responsible for:

(1) Reviewing all expense vouchers, expense reports, requests for disbursement by check, petty cash vouchers, invoices, inter-division billings, and other pertinent data, to assure that individual items of expense are adequately identified, explained, and supported;

(2) Identifying and segregating costs which are either properly unallowable under FAR and our contracts, or those which the company elects to exclude from its proposals for allocation to Government contracts;

(3) Ensuring proper account segregation and consistency in accounting treatment of costs to ensure compliance with the Cost Accounting Standards as required by the contracts;

(4) Establishing new accounts for costs which historically have been questioned by DCAA to ensure these costs are clearly visible; and,

(5) Issuing detailed written instructions which will ensure compliance with this policy.

D. Overhead Negotiator Responsibilities - The group designated to negotiate overhead is responsible for:

(1) Advising Accounting of current regulations and interpretations concerning allowability of costs on Government contracts;

(2) Reviewing Accounting "screening" of costs for exclusion from proposals for compliance with both Government requirements to exclude expressly unallowable costs and for compliance with current Company elections to exclude cost from proposals;

(3) Providing general guidance on accounting applications of Government cost principles and Cost Accounting Standards;

(4) Providing guidance and determinations to employees incurring expenses and to Accounting on the allowability of specific items of cost upon request;

(5) Providing final determination as to what cost will be excluded from settlement proposals for negotiation; and,

(6) Negotiating settlements.

E. Management

Supervisors should hold semi-annual indoctrination of all personnel who incur/authorize expenses. The indoctrination should include not only the procedure, explanation and reporting requirements on travel expenses, other incurred expenses and outside vendor invoices, but also should provide the latest guidance available on allowability and nonallowability of costs on our Government contracts. This will ensure to the maximum extent practical that only reasonable and properly supported costs are included in our proposals for allocation to Government contracts.

2. Expense Reporting and Accounting

A. All travel related expenses for which the employee is seeking reimbursement must be separately and specifically identified on his or her Expense Report and submitted promptly following the individual's return to his or her permanent work location. Other business expenses must also be adequately identified by the employee and submitted to Accounting promptly after incurrence or receipt of invoices by the employee.

B. All expenses submitted for payment must be adequately explained, supported, and documented. Documentation required for business conferences must include names and affiliation, location, number of attendees, and subject matter.

C. Where expenses are not adequately explained and supported, they will be treated as unallowable for allocation to Government contracts. Unsupported requests for reimbursement by our employees will be accepted only after approval by person authorized to approve incurrence of the expense. Approval will be granted only in cases where disclosure is sensitive and would jeopardize ongoing activities such as reorganization/acquisition considerations, negotiations, or executive recruitment. Such approvals will be obtained before payment and recording in accounting records.

D. Accounting will record expressly unallowable expenses in separate unallowable accounts. Expenses which the Company elects to exclude from proposals for allocation to Government contracts will be charged to separate accounts. However "elected" exclusions, that by the availability of additional information or that can otherwise be demonstrated to be allowable, will be included in proposals for allocation to Government contracts.

E. Corporate Accounting will identify the total amount of expressly unallowable cost and other cost to be excluded with all billings and estimates of Corporate Office expense sent to divisions and subsidiaries.

F. Divisions will, as a minimum, exclude the amounts provided by the Corporate Office, plus similar items at the division/subsidiary from all billings and estimates of cost sent to the Government. Normally this total excluded amount will fall well below the "withhold" taken by the Government to cover potential unallowables at the time of final settlements of overhead expense.

REFERENCES

1. Federal Acquisition Regulation (FAR) Part 31, Subpart 2.
2. Executive Memorandum No. 85-1, "Unallowable Cost (Entertainment Expense)", dated 7 January 1985.
3. Executive Memorandum No. 84-17, "Reimbursement for Use of the Corporation's Owned/Leased Aircraft", dated 21 December 1984.
4. Executive Memorandum No. 84-16, "Reimbursement for Use of the Corporation's Washington D.C. Condominium", 21 December 1984.
5. CPP 5-4, "Lobbying and its Cost Allowability on Federal Contracts", dated 28 February 1984.

Current Contract
7/1/81 - 86

Agreement By and Between General Dynamics Corporation
Having its Principal Executive Offices at
Pierre Laclede Center, St. Louis, Missouri, U.S.A.
and Buyeon Company, Limited
Having its Head Offices at Seung Kong Hwae Bldg.,
3-7, Jung-Dong, Chung-Gu
C.P.O. Box 8648
Seoul, Republic of Korea (Consultant)

WHEREAS, General Dynamics Corporation wishes to make a survey of the market and to seek business opportunities in the Republic of Korea (ROK) ("Territory") for it and its subsidiaries (General Dynamics Corporation and its subsidiaries collectively referred to herein as GD); and

WHEREAS, Consultant is willing to help GD realize this objective. NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereby agree as follows:

1. SERVICES TO BE RENDERED

1.1 General Marketing Consulting Services including, among others:

a) identifying and profiling decision makers

b) informing decision makers of GD's capabilities in advance of GD contacts, reinforcing GD contact efforts, providing constructive feedback both as to meetings held and as to next recommended follow-through actions

c) providing concrete, factual data as requested as to competitor activities, proposals and ranking as compared to GD and constructive recommendations for GD counter strategies and actions.

d) providing factual data about political, economic, social and other factor changes, trends and forecasts that affect GD business development plans along with assessments as to the impact of such factors on GD actions and concrete recommendations so that GD action plans can be appropriately adjusted on a timely basis or the cost of GD managerial or staff time is not unnecessarily expended.

e) General:

- maintaining and enhancing GD's local presence
- maintaining continuous liaison with customers and potential customers
- providing support services for GD personnel visiting the Territory
- providing analysis of and improvement recommendations for GD's planned marketing programs
- providing clarification or commentary as requested in understanding or interpreting any of the services above and reports furnished.

f) Any contact with the press will be limited to survey or clipping type services. Direct or indirect contact on GD products or operations with the press will be handled solely by GD and/or its designated representative.

1.2 Support Facilities Services

a) Suitable facilities in Seoul, Republic of Korea, for GD executives and visiting GD personnel as follows:

(i) Furnished office premises for GD executives and for visitors, including one conference room.

(ii) Telephone lines as required for GD's exclusive use and access to Consultant's telex facilities, including basic monthly charges for both, but not including additional charges for usage.

(iii) Long distance and telex communications for GD executives and visiting personnel.

(iv) Office supplies.

(v) Xerox services on the premises provided in (a)(i) above.

(vi) Parking space(s) for GD executives as required.

b) Administrative services as follows:

(i) Upon request by GD, any translation, printing, charting and publication services.

1.3 Personnel Support Services

For GD personnel located by GD in the Territory for whom Personnel Support services are not already provided under government provisions, and, as specifically requested by GD, Consultant may be requested to arrange for or provide housing, household furnishings, communications and air or ground transportation.

2. COMPENSATION ARRANGEMENTS

2.1 For General Marketing Consulting Services, described in 1.1 above: GD shall pay to Consultant a fee at an annual rate of U.S. $250,000 (commencing 1 July 1981) payable in equal monthly installments to be forwarded to Consultant's address in Korea. When expressly authorized in advance, in writing, by GD, Consultant shall be reimbursed for reasonable and actual travel expenses outside the Territory upon presentation of proper receipts and invoices. Additionally, with prior written approval by the Executive Vice President - International, Consultant may be reimbursed for extraordinary travel and other legitimate business expenses not otherwise covered in this agreement and upon presentation of proper receipts and invoices.

2.2 For Support Facilities Services, described in 1.2 above: Consultant shall be paid a fee of U.S. $10,710 monthly for each calendar month such support facilities and services are provided. Additionally, Consultant shall be reimbursed actual costs for communication services described in paragraph 1.2 (a)(ii) hereinabove and, when expressly authorized in advance, actual costs of translation, printing, charting, and publication described in paragraph 1.2 (b)(i) hereinabove. These additional costs shall be paid monthly upon presentation of proper receipts and invoices. This arrangement shall commence as of 1 July 1981 and terminate as of 24:01 a.m. Korean Time, 1 March 1983.

GD and Consultant may agree, following their review of any request submitted by Consultant on or before 30

November 1982, upon the whole or any part of the amount requested by Consultant to be paid to Consultant by reason of the termination under this paragraph 2.2, which amount shall be for any reasonable cancellation charges thereby incurred by Consultant and any reasonable loss upon outstanding commitments for personal services which Consultant is unable to cancel; provided, however, that in connection with any outstanding commitments for personal services which Consultant is unable to cancel, Consultant shall have exercised reasonable diligence to divert such commitments to his other activities and operations.

2.3 For Personnel Support Services, described in 1.3 above: Consultant shall be paid fees, agreed upon in advance, and supported by appropriate documentation provided that such fees shall be reasonable and competitive within the Territory.

2.4 General: Notwithstanding the foregoing in no event shall this Agreement require GD to pay or continue to pay any compensation to Consultant if such compensation is or becomes prohibited by law, regulation or administrative action of the Government of the United States or the Government of the Territory. Further, in the event that the Government of the United States or the Government of the Territory, at any time, restricts and/or limits the amount of such compensation it will recognize, then the compensation payable hereunder shall be reduced in accordance with such restriction and/or limitation.

3. TERM OF AGREEMENT

The term of this Agreement shall be five (5) years commencing 1 July 1981. This five-year term may be extended by GD, at its option, for additional one (1) year increments, by notice at least thirty (30) days prior to the date of expiration of this Agreement.

4. SCOPE OF EFFORT

The consulting services to be rendered hereunder shall be directed to all GD exportable weapon systems and commercial products from any division that has sales potential in the ROK. From time to time GD may request Consultant to place special emphasis on specific products, product lines or service projects. Such request(s) will be by the Executive Vice President-International, or such person(s) as he shall designate. It is recognized GD and Consultant may agree from time to time that it is desirable for Consultant to provide additional support, beyond the services provided for herein. Such services shall be subject to separate, prior written agreements between the parties. However, nothing herein shall preclude GD from obtaining such services from other sources or require Consultant to provide such services.

5. AVAILABILITY TO GD

Consultant shall make his services available to GD throughout the term of this Agreement. Consultant shall at no time perform such services for or represent any party whose interests conflict or are competitive with the product lines of GD specified (or hereafter specified) in paragraph 4 above. If Consultant wishes to perform consulting services for any other person or organization during the term of this Agreement, Consultant shall furnish GD the name and address of each such person or organization and inform GD of the general character of such consulting services. General Dynamics will promptly review the request and will consent in writing unless it determines in good faith that such proposed representation will conflict with the sale of products of General Dynamics covered by this Agreement. In the event Consultant undertakes such obligations without prior GD agreement, GD may, at any time and without limitation of any other rights GD may have, terminate this Agreement by written notice to Consultant specifying the effective date of termination.

6. REPORTS OF WORK

Consultant shall make immediate reports to GD on all matters time-sensitive in nature. In addition, at the sole option of GD, Consultant may be required to submit written monthly reports to GD, making full disclosure of all services performed during the preceding month pursuant to this Agreement. Consultant shall from time to time, at the request of GD, and, in any event, upon expiration or termination of this Agreement, deliver to GD all working papers and other documents and materials that have been prepared or developed by Consultant or made available to Consultant in connection with performance of services under this Agreement. All reports of work will be sent to the Director-Far East, GD, with a copy to the Executive Vice President-International, GD. It is mutually understood that the contents of all reports will be subject to the restrictions on information of both countries.

7. CONFIDENTIAL NATURE OF WORK

Consultant shall not, during any part or after the term of this Agreement, divulge to any other than GD officers (or such other parties as a GD officer shall designate) or, except in the performance of this Agreement, make any use of information or knowledge relating to (a) any facilities or services which Consultant shall provide or (b) other business of GD or any of its related companies, divisions, subsidiaries, or suppliers, which Consultant shall have obtained during the term of this Agreement and which shall not be generally known.

8. LAWS AND REGULATIONS

Consultant shall at all times comply with all laws, regulations and ethical standards applicable to business activities in the performance of this Agreement and without limiting the generality of the foregoing, all statutes, laws and regulations and ethical standards of the United States, including the Foreign Corrupt Practices Act of 1977 (P.L. 95-313), as well as those of the Government of the ROK and, further, Consultant represents and warrants that no portion of the fee or compensation paid or to be paid to Consultant pursuant to this Agreement, nor other monies or benefits from whatever source derived, have been or will be offered, obligated or expended, directly or indirectly, for the benefit, directly or indirectly, of any person or entity, official or private, with a view to obtaining special preference therefor. This Agreement shall automatically terminate if Consultant shall violate any of such statutes, laws or regulations during the term of this Agreement.

9. FORCE MAJEURE

The failure of either party hereto to perform any obligation under this Agreement or to be prompt in the performance of the terms and conditions herein by reason of acts of God, acts of government, wars, civil disturbance, strikes, accidents in transportation or other cause beyond its control shall not be deemed a breach of this Agreement.

10. ASSIGNMENT

Without first obtaining the prior written consent of GD, Consultant shall not assign or transfer, all or any part of this Agreement, or any of Consultant's rights or obligations hereunder (including, but not limited to, the right of Consultant to receive any fees hereunder).

11. ENTIRE AGREEMENT, PAROLE OR EXTRINSIC EVIDENCE, WAIVERS AND SEVERABILITY

a. This written agreement, together with any written amendments hereof, constitutes the entire agreement between the parties relating to the subject matter herein; it is the final expression of the agreement between the parties.

b. Terms included herein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement but may be explained or supplemented, if required, by:

   (i) Subsequent course of dealing or performance; and

   (ii) Evidence of consistent, additional terms except where this written agreement is a complete and exclusive statement of the terms agreed upon. No change in, addition to, or waiver of the terms and provisions herein shall be binding upon either party unless approved by it in writing.

c. The failure by any party to exercise or enforce any of the terms or provisions of this Agreement shall not constitute or be deemed a waiver of that party's right thereafter to enforce each and every term and provision of this Agreement.

d. Should a court of law or arbitrator hold that one or more of the provisions in this Agreement is invalid, illegal, or unenforceable, such a decision will not affect the enforceability of the other provisions.

12. ARBITRATION

a. All disputes arising in connection with the present agreement shall be finally settled by arbitration. Arbitration to be held outside the United States of America shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, unless by written agreement the parties adopt the Rules of the American Arbitration Association. Arbitration to be held in the United States of America shall be conducted in accordance with the Rules of the American Arbitration Association, unless by written agreement the parties adopt the Rules of Arbitration of the International Chamber of Commerce.

b. Judgment upon the award rendered may be entered in any Court having jurisdiction or application may be made to such Court for a judicial acceptance of the award and an order or enforcement, as the case may be.

13. ENFORCEMENT COSTS

The parties agree that the unsuccessful party shall pay and discharge all reasonable attorney's fees, costs and expenses (including but not limited to the cost of litigation (訴訟費用 sosong biyong) that are incurred by itself and by the successful party in enforcing this Agreement.

14. NOTICES

All notices and reports, which are or may be required to be furnished under this Agreement by either of the parties to the other, shall be in writing and shall be effective, unless otherwise provided, when either served by personal delivery, or deposited, postage prepaid, in the registered air mail, addressed to the addressee at the address first shown above, or to such changed address as the addressee shall have specified by prior notice.

15. NATURE OF RELATIONSHIP

In performing any services pursuant to this Agreement, Consultant shall act as an independent contractor and not as an employee, agent, or representative of GD. Consultant shall not enter into any agreements or incur any obligations on behalf of GD, or commit GD in any manner whatsoever, without the prior written consent of GD.

It is expressly understood that no principal of Consultant's firm can also be an employee, officer, or representative of any customer or of those government agencies responsible for the procurement of GD products or services or whose approval is essential to such procurement or its financing. Principals include the individual sales representative or any major owner, major stockholder, officer, director or active representative of an advisory company or organization.

TERM OF AGREEMENT
AVAILABILITY TO GD
LAWS & REGULATIONS

16. TERMINATION

a. In addition to paragraphs 3, 5 and 8, either party hereto, at any time, may also terminate this Agreement by giving the other party notice of the reasons therefor as follows:

   (i) If for any reason General E. Y. Yoon is no longer associated with the Consultant in an active and continuous business capacity representing GD in the Territory.

(ii) If the other party enters bankruptcy (破産 [p'asan]), composition (和議 [hwaui]), company reorganization (會社整理 [hoesa chongni]), liquidation (淸算 [ch'ongsan]) proceedings or becomes insolvent due to its inability to pay its debts as they mature; or

(iii) If either party breached any of the terms, provisions, or conditions of this Agreement.

b. Consultant's obligations pursuant to paragraph 7 hereinabove shall survive any termination or expiration of this Agreement.

c. Any termination pursuant to paragraphs 5 and 8 hereinabove or this paragraph 16 or expiration pursuant to paragraph 3 hereinabove shall not release or discharge any obligation of either party that shall have accrued prior to the effective date of such termination or expiration.

17. GOVERNING LAW AND LANGUAGE

This Agreement shall be governed by and interpreted and construed in accordance with substantive law (實質法 [silchilbop]) of the Republic of Korea and the English language version of this Agreement shall be controlling.

BUYEON COMPANY, LIMITED	GENERAL DYNAMICS CORPORATION
By E. Y. Yoon E. Y. Yoon President	By J. R. Mellor Executive Vice President-International
Title	
Date 2nd November 1982	Date 14 September 1982

AMENDMENT NO. 1 TO THE
AGREEMENT BETWEEN GENERAL DYNAMICS CORPORATION
AND BUYEON COMPANY LIMITED

This Amendment No. 1 to the Agreement by and between General Dynamics Corporation (GDC) and Buyeon Company, Limited (Consultant) is effective the 1st day of April 1980.

WITNESSETH:

WHEREAS, GDC and Consultant entered into an Agreement effective the 1st day of July 1979 for Consultant to provide certain advisory and support services to GDC for the territory of Korea, and

WHEREAS, the parties wish to add and change certain provisions of that Agreement,

NOW, THEREFORE, GDC and Consultant agree as follows:

1. Paragraph 2, Support Facilities and Services to be Provided, is changed to read as follows:

"Consultant shall provide the following logistic support.

(i) Suitable facilities in Seoul, Republic of Korea for one (1) GDC executive and for visiting GDC personnel as follows:

- (a) Furnished office premises for one (1) GDC executive and extra office for visitors.
- (b) One (1) telephone line for GDC's exclusive use and access to Consultant's telex facilities including basic monthly charges for both but not including additional charges for usage.
- (c) Long distance and telex communications for GDC executive and visiting personnel.
- (d) Office supplies.
- (e) Xerox services on the premises provided in (a) above.

(ii) Administrative services as follows:

- (a) One full-time secretary for GDC executive at the office premises described hereinabove."

2. Paragraph 6-(b) is changed to read as follows:

"(b) For support facilities and services to be provided pursuant to paragraph 2, a fee of U.S. $10,710 to be paid monthly to Consultant for each calendar month such support facilities and services are provided. Additionally, Consultant shall be reimbursed actual costs for communication services described in paragraph 2 (i)(b) hereinabove and, when expressly authorized in advance actual costs of translation, printing, charting, and publication described in paragraph 2 (ii)(c) hereinabove. These additional costs shall be paid monthly upon presentation of proper receipts and invoices. GDC may, at any time and at its sole option, terminate the support facilities and services by notice to Consultant thirty (30) days prior to the date of such termination. Termination of these support facilities and services shall not be construed as a termination of this Agreement nor shall it release Consultant from any other obligations hereunder."

3. Paragraph 6-(c) is eliminated.

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 1 to be executed by the signature of its duly authorized officer.

BUYEON COMPANY, LIMITED	GENERAL DYNAMICS CORPORATION
By E. G. Yoon	By Warren Sullivan
Title President	Title Vice President
Date 18 August 1980	Date 5 August 1980

SUPPLEMENTAL AGREEMENT TO THE AGREEMENT BETWEEN GENERAL DYNAMICS CORPORATION AND BUYEON COMPANY, LIMITED

This Supplemental Agreement by and between General Dynamics Corporation (GDC) and Buyeon Company, Limited (Consultant) is effective as of the 1st. day of January, 1978.

WITNESSETH:

WHEREAS, GDC and Consultant entered into an Agreement effective the 1st. day of January, 1977 for Consultant to provide certain advisory and support services to GDC for the territory of the Republic of Korea, and

WHEREAS, the parties wish to add and change certain provisions of that Agreement,

NOW, THEREFORE, GDC and Consultant agree as follows:

1. Paragraph 1.(v) is added to read as follows:

   (v) Assist in conveying specific GDC product information to designated parties in the Territory.

2. Paragraph 2.(i)(e) is changed to read as follows:

   (e) Transportation (if requested by GDC, Consultant shall contract for an automobile and driver for the exclusive use of the GDC executive)

3. The first sentence of Paragraph 3. is changed to read as follows:

   The term of this Agreement shall be three (3) years from the effective date specified in Paragraph 19.

4. Paragraph 6.a. is changed to read as follows:

   a. For advisory services to be rendered pursuant to Paragraph 1 hereinabove, a base fee of U.S. $1,000.00 per month for the first year and U.S. $2,000.00 per month for each month thereafter. Further Consultant shall be re- 4 sponsible for and pay any and all expenses related to the advisory services provided herein including salaries of assistants, clerical and secretarial help consultant deems necessary or desirable, rent, utilities, and necessary transportation and travel expenses within the Territory. As compensation for such expenses, Consultant shall be entitled to an overhead charge of 150% of the base fee, namely U.S. $1500.00 per month for the first year and U.S. $3,000.00 per month for each month thereafter. The total of the base fee and overhead charge shall be paid monthly. Additionally, when expressly authorized in advance, in writing, by GDC, Consultant shall be reimbursed for reasonable and actual travel expenses outside the territory upon presentation of proper receipts and invoices.

5. The first sentence of Paragraph 6.b. is changed to read as follows:

   b. For support facilities and services to be provided pursuant to Paragraph 2, a fee of U.S. $3,400.00 per month for the first year and U.S. $3,300 (plus the actual cost of transportation if provided) per month for each month thereafter to be paid monthly to Consultant for each calendar month such support facilities and services are required and provided.

IN WITNESS WHEREOF, each of the parties hereto has caused this Supplemental Agreement to be executed by the signature of its duly authorized officer.

BUYEON COMPANY, LIMITED	GENERAL DYNAMICS CORPORATION
By E. Y. Yoon	By
Title President	Title Vice Pres., [illegible]
Date 2/28/78	Date 2/15/78

GENERAL DYNAMICS

Pierre Laclede Center, St. Louis, Missouri 63105

21 December 1976

Agreement by and between General Dynamics Corporation
having its prinicpal executive offices at
Pierre Laclede Center, St. Louis, Missouri, U.S.A. (GDC)
and Buyeon Company, Limited
having its head offices at Seung Kong Hwac Bldg., 3-7, Jung-Dong, Chung-Gu
Gwang Hwa Mun P. O. Box 1339,
Seoul, Republic of Korea (Consultant)

In consideration of the mutual agreements herein contained, the parties hereby agree as follows:

1. SCOPE OF SERVICES

Consultant shall serve as an advisor to GDC for the territory of the Republic of Korea ("Territory") and Consultant shall provide the following advisory services:

(i) Reports on the current situation, problems, trends, and Consultant's forecasts, both long and short-term, regarding the political and economic situation in the Territory.

(ii) Analysis of the probable impact of such trends which might influence the current business and products of GDC and the development of new products and opportunities for expansion or growth of GDC business in the Territory.

(iii) Analysis of GDC's planned marketing program as well as the effectiveness of GDC's current marketing programs and Consultant's advice for improvements.

(iv) Any clarifying explanations or commentaries requested by GDC to assist GDC in understanding and interpreting the services performed and the reports furnished.

2. SUPPORT FACILITIES AND SERVICES TO BE PROVIDED

Consultant shall provide the following logistic support.

(i) Suitable facilities in Seoul, Republic of Korea for one (1) GDC executive as follows:

(a) Furnished office premises for one (1) GDC executive.

(b) One (1) telephone line for GDC's exclusive use and access to Consultant's telex facilities including basic monthly charges for both but not including additional charges for usage.

(c) Long distance and telex communications for GDC executive.

(d) Office supplies.

(e) Transportation (use of Consultant's automobile and driver, as needed).

(ii) Administrative services as follows:

(a) Secretarial service for one (1) GDC executive at the office premises described hereinabove.

(b) Upon request by GDC, any translation, printing, charting, and publication services.

3. TERM OF AGREEMENT

The term of this Agreement shall be two (2) years from the effective date specified in paragraph 19. This term may be extended by GDC, at its option for an additional one (1) year, by notice at least thirty (30) days prior to the date of expiration of this Agreement.

4. SCOPE OF EFFORT

Consultant shall initially direct his efforts to the Standard Missile, FPS Radar Modification, and Air Combat Fighter product lines. From time to time GDC shall notify Consultant of other products or product lines for special emphasis. Such notification shall be issued through the office of Vice President - International, GDC.

5. AVAILABILITY TO GDC

Consultant shall make his services available to GDC throughout the term of this Agreement. Consultant shall at no time perform such services for or represent any party whose interests conflict or are competitive with the product lines of GDC specified (or hereafter specified) in paragraph 4 above. If Consultant wishes to perform consulting services for any other person or organization during the term of this Agreement, Consultant shall furnish GDC the name and address of each such person or organization, inform GDC of the general character of such consulting services, and receive GDC's agreement thereto prior to Consultant accepting such undertaking. In the event Consultant undertakes such obligations without prior GDC agreement, GDC may, at any time and without limitation of any other rights GDC may have, terminate this Agreement by notice to Consultant specifying the effective date of termination.

6. COMPENSATION

GDC shall pay to Consultant:

a. For advisory services to be rendered pursuant to paragraph 1 hereinabove, a base fee of U. S. $1,000.00 per month. Further Consultant shall be responsible for and pay any and all expenses related to the advisory services provided herein including salaries of assistants, clerical, and secretarial help Consultant deems necessary or desirable, rent, utilities, and necessary transportation and travel expenses within the Territory. As compensation for such expenses, Consultant shall be entitled to an overhead charge of 150% of the base fee, namely, U. S. $1,500.00 per month. The total of the base fee and overhead charge, namely, U. S. $2,500.00, shall be paid monthly. Additionally, when expressly authorized in advance, in writing, by GDC, Consultant shall be reimbursed for reasonable and actual travel expenses outside the Territory upon presentation of proper receipts and invoices.

b. For support facilities and services to be provided pursuant to paragraph 2, a fee of U. S. $3,400.00 to be paid monthly to Consultant for each calendar month such support facilities and services are provided. Additionally, Consultant shall be reimbursed actual costs for communication services described in paragraph 2 (i)(b) hereinabove and, when expressly authorized in advance actual costs of translation, printing, charting, and publication described in paragraph 2 (ii)(b) hereinabove. These additional costs shall be paid monthly upon presentation of proper receipts and invoices. GDC may, at any time and at its sole option, terminate the support facilities and services by notice to Consultant thirty (30) days prior to the date of such termination. Termination of these support facilities and services shall not be construed as a termination of this Agreement nor shall it release Consultant from any other obligations hereunder.

7. REPORTS OF WORK

Consultant shall make immediate reports to GDC on all matters time-sensitive in nature. In addition, at the sole option of GDC, Consultant may be required to submit written monthly reports to GDC, making full disclosure of all services performed during the preceding month pursuant to this Agreement. Consultant shall from time to time, at the request of GDC, and, in any event, upon expiration or termination of this Agreement, deliver to GDC all working papers and other documents and materials that have been prepared or developed by Consultant or made available to Consultant in connection with performance of services under this Agreement. All Reports of Work will be sent to the Director - Far East, GDC with a copy to Vice President - International, GDC.

8. CONFIDENTIAL NATURE OF WORK

Consultant shall not, during any part or after the term of this Agreement, divulge to any party other than GDC officers (or such other parties as a GDC officer shall designate) or, except in the performance of this Agreement, make any use of information or knowledge relating to (i) any facilities or services which Consultant shall provide or (ii) other business of GDC or any of its related companies, divisions, subsidiaries, or suppliers, which Consultant shall have obtained during the term of this Agreement and which shall not be generally known.

9. NATURE OF RELATIONSHIP

In performing any services pursuant to this Agreement Consultant shall act as an independent consultant and not as an employee, agent, or representative of GDC. Consultant shall not enter into any agreements or incur any obligations on behalf of GDC, or commit GDC in any manner whatsoever, without the prior written consent of GDC.

10. TERMINATION

a. Either party hereto upon giving a thirty (30) days' notice, may terminate this Agreement.

b. Either party hereto, at any time, may also terminate this Agreement by giving the other party notice of the reasons therefor as follows:

(i) If the other party enters bankruptcy (破産 [p'asan]), composition (和議 [hwaŭi]) . company reorganization (会社整理[hoesa chŏngni]), liquidation(清算 [ch'ŏngsan])proceedings or becomes insolvent due to its inability to pay its debts as they mature; or

(ii) If either party breached any of the terms, provisions, or conditions of this Agreement.

c. Consultant's obligations pursuant to paragraph 8 hereinabove shall survive any termination or expiration of this Agreement.

d. Any termination pursuant to paragraph 5 hereinabove or this paragraph 10 or expiration pursuant to paragraph 3 hereinabove shall not release or discharge any obligation of either party that shall have accrued prior to the effective date of such termination or expiration.

e. If GDC shall terminate this Agreement pursuant to paragraph 10a hereinabove, GDC and Consultant may agree, following their review of any request submitted by Consultant within sixty (60) days after notice of termination, upon the whole or any part of the amount requested by Consultant to be paid to Consultant by reason of the termination thereunder, which amount shall be for any reasonable cancellation charges thereby incurred by Consultant and any reasonable loss upon outstanding commitments for personal services which Consultant is unable to cancel; provided, however, that in connection with any outstanding commitments for personal services which Consultant is unable to cancel, Consultant shall have exercised reasonable diligence to divert such commitments to his other activities and operations.

11. LAWS AND REGULATIONS

Consultant shall abide by all applicable laws and regulations of the United States of America and the Republic of Korea, and shall abide by all applicable security regulations of GDC.

12. FORCE MAJEURE

The failure of either party hereto to perform any obligation under this Agreement or to be prompt in the performance of the terms and conditions herein by reason of acts of God, acts of government, wars, civil disturbance, strikes, accidents in transportation or other cause beyond its control shall not be deemed a breach of this Agreement.

13. ASSIGNMENT

Without first obtaining the prior written consent of GDC, Consultant shall not assign or transfer, all or any part of this Agreement, or any of Consultant's rights or obligations hereunder (including, but not limited to, the right of Consultant to receive any fees hereunder.)

14. ENTIRE AGREEMENT, PAROLE OR EXTRINSIC EVIDENCE, WAIVERS AND SEVERABILITY

a. This written agreement together with any written amendments hereof, constitutes the entire agreement between the parties relating to the subject matter herein; it is the final expression of the agreement between the parties.

b. Terms included herein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement but may be explained or supplemented, if required, by:

(i) Subsequent course of dealing or performance; and

(ii) Evidence of consistent additional terms except where this written agreement is a complete and exclusive statement of the terms agreed upon. No change in, addition to, or waiver of the terms and provisions herein shall be binding upon either party unless approved by it in writing.

c. The failure by any party to exercise or enforce any of the terms or provisions of this Agreement shall not constitute or be deemed a waiver of that party's right thereafter to enforce each and every term and provision of this Agreement.

d. Should a court of law or arbitrator hold that one or more of the provisions in this Agreement is invalid, illegal, or unenforceable, such a decision will not affect the enforceability of the other provisions.

15. ARBITRATION

a. All disputes arising in connection with the present agreement shall be finally settled by arbitration. Arbitration to be held outside the United States of America shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, unless by written agreement the parties adopt the Rules of the American Arbitration Association. Arbitration to be held in the United States of America shall be conducted in accordance with the Rules of the American Arbitration Association, unless by written agreement the parties adopt the Rules of Arbitration of the International Chamber of Commerce.

b. Judgment upon the award rendered may be entered in any Court having jurisdiction or application may be made to such Court for a judicial acceptance of the award and an order or enforcement, as the case may be.

16. ENFORCEMENT COSTS

The parties agree that the unsuccessful party shall pay and discharge all reasonable costs, attorney's fees and expenses (including but not limited to the cost of litigation (訴訟費用 [sosong biyong]) that are incurred by itself and by the successful party in enforcing this Agreement.

17. NOTICES

All notices and reports, which are or may be required to be furnished under this Agreement by either of the parties to the other, shall be in writing and shall be effective, unless otherwise provided, when either served by personal delivery, or deposited, postage prepaid, in the registered airmail, addressed to the addressee at the address first shown above, or to such changed address as the addressee shall have specified by prior notice.

18. GOVERNING LAW AND LANGUAGE

This Agreement shall be governed by and interpreted and construed in accordance with the substantive law (実質法 [silchilbŏp]) of the Republic of Korea and the English language version of this Agreement shall be controlling.

19. EFFECTIVE DATE

The effective date of this Agreement shall be 1st day of January, 1977.

BUYEON COMPANY, LIMITED	GENERAL DYNAMICS CORPORATION
By E. Y. Yoon	By
Title President	Title [illegible]
Date 10. Jan. 1977	Date [illegible]

GENERAL DYNAMICS
Pierre Laclede Center, St. Louis, Missouri 63105

1 February 1976

Agreement by and between General Dynamics Corporation
having its principal executive offices at
Pierre Laclede Center, St. Louis, Missouri, U.S.A. (GDC)
and Eung Yul Yoon
having offices at 449-2, Pyongchang-Dong, Chongro-ku,
Seoul, Korea (Consultant).

In consideration of the mutual agreements herein contained, the parties hereby agree as follows:

1. Services to be Rendered. Consultant shall serve as an advisor to GDC for the territory of the Republic of Korea (Territory). Consultant shall provide:

a. Reports on the current situation, problems, trends, and Consultant's forecasts, both long and short-term, regarding the political and economic situation in the Territory,

b. Analysis of the probable impact of such trends which might influence the current business and products of GDC and the development of new products and opportunities for expansion or growth of GDC business in the Territory,

c. Analysis of GDC's planned marketing programs as well as the effectiveness of GDC's current marketing programs and Consultant's advice for improvements, and

d. Any clarifying explanations or commentaries requested by GDC to assist GDC in understanding and interpreting the services performed and the reports furnished.

2. Term of Appointment. Subject to paragraphs 4 and 9, these services shall be provided for a term of one year from date of execution of this Agreement by both parties. This term may be extended by GDC, at its option, for an additional one year, by notice in writing, at least thirty (30) days prior to the date of such expiration of this Agreement.

3. Scope of Effort. Consultant's efforts shall be initially directed to the Standard Missile, FPS Radar Modification and Air Combat Fighter product lines. From time to time GDC shall notify Consultant of other products or product lines for special emphasis. Such notification will be through the office of Vice President - International.

BEST COPY AVAILABLE

4. Availability to GDC. Consultant's services shall be available to GDC throughout the term of this Agreement. Consultant shall at no time perform such services for or represent anyone whose interests conflict or are competitive with the product lines of GDC specified (or hereafter assigned) in paragraph 3 above. If Consultant wishes to perform consulting services for any other person or organization during the term of this Agreement, Consultant shall first furnish GDC the name and address of each such person or organization and inform GDC of the general character of such consulting services and receive GDC agreement thereto prior to Consultant accepting an obligation. In the event Consultant undertakes such obligations without prior GDC agreement, GDC may, at any time and without limitation of any other rights GDC may have, terminate this Agreement by giving Consultant notice in writing specifying the effective date of termination.

5. Compensation. GDC shall pay to Consultant, for services performed hereunder, a base fee of U.S. $1,000 per month. Further, Consultant shall be responsible for and pay any and all expenses related to the services provided herein including salaries of assistants, clerical and secretarial help Consultant deems necessary or desirable, rent, utilities and necessary transportation and travel expenses within the Territory. As compensation for such expenses, Consultant shall be entitled to an overhead charge of 150% of the base fee. The total of the base fee and overhead charge (U.S. $2,500) shall be paid monthly. Additionally, when expressly authorized in advance, in writing, by GDC, Consultant shall be reimbursed for reasonable and actual travel expenses outside the Territory upon presentation of proper receipts and invoices.

6. Reports of Work. Consultant shall make immediate reports to GDC on all matters time sensitive in nature. In addition, Consultant shall submit written monthly reports to GDC, making full disclosure of all services performed during the preceding month pursuant to this Agreement. Consultant shall from time to time at the request of GDC and, in any event, upon expiration or termination of this Agreement, deliver to GDC all working papers and other documents and materials that have been prepared or developed by Consultant or made available to Consultant in connection with performance of services under this Agreement. All Reports of Work will be sent to the office of Director - Far East with a copy to Vice President - International.

7. Confidential Nature of Work. Consultant will not, during or after the term of this Agreement, divulge to anyone other than GDC officers (or such other persons as such officers shall designate) or, except in the performance of this Agreement, make any use of information or knowledge relating to (a) any services which Consultant shall provide or (b) other business of GDC or any of its divisions, subsidiaries, or suppliers, which Consultant shall have obtained during the term of this Agreement and which shall not be generally known.

8. Nature of Relationship. In performing any services pursuant to this Agreement Consultant is acting as an independent consultant and not as an employe, agent, or representative of GDC. Consultant shall not act as GDC agent or enter into any Agreements or incur any obligations on GDC behalf, or commit GDC in any manner whatsoever, without prior written consent.

9. Termination.

(a) Either party, upon giving a thirty (30) day notice in writing, may terminate this Agreement.

(b) This Agreement may also be terminated at any time by the Consultant or GDC in the event that either party shall be, or become, insolvent, or in the event that either party breaches any of the terms, provisions, or conditions of this Agreement.

(c) Consultant's obligations pursuant to paragraph 7 hereof shall survive any termination or expiration of this Agreement.

(d) Any termination pursuant to paragraph 4 or this paragraph 9 or expiration pursuant to paragraph 2 hereof shall not release or discharge any obligation of either party that shall have accrued prior to the effective date of such termination or expiration.

10. Laws and Regulations. Consultant shall abide by all applicable laws and regulations of the United States of America and the Republic of Korea, and shall abide by all applicable security regulations of GDC.

11. Assignment. Without first obtaining the prior written consent of GDC, Consultant shall not assign or transfer, all or any part of this Agreement, or any of Consultant's rights or obligations hereunder (including but not limited to the right of Consultant to receive any fees hereunder).

12. Governing Laws. This Agreement shall be governed by and interpreted and construed in accordance with the laws of the State of Missouri of the United States of America excluding its conflict of law rules.

13. Entire Agreement. This Agreement constitutes the entire Agreement between the parties hereto with respect to the subject matter hereof, and no written or oral understandings or representations predating the date hereof shall be of any effect. Except as otherwise provided herein, this Agreement may not be varied, amended, or supplemented except by written instrument executed by both parties hereto concurrently with or after the execution of this Agreement. Each party reserves the right to disclose to others the provisions of this Agreement.

GENERAL DYNAMICS CORPORATION

Yoon, Eung Yul BY Warren Phillips

DATE 10, Feb. 1976 TITLE Vice Pres.

DATE 30 January 1976

SUMMARY OF PYMTS TO BUYEON

MONIES PAID TO BUYEON BY GDIC (Corporate International):	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Total All Years
(a) Consultant Retainer Fee	$27,500.00	$30,000.00	$60,000.00	$60,000.00	$119,999.96	$99,999.96	$324,999.96	$249,999.96	$249,999.96	$62,499.99	$1,204,999.79
(b) Fee for Logistic/Administrative Support	$0.00	$26,300.00	$39,600.00	$39,600.00	$118,440.00	$128,520.00	$128,525.00	$21,420.00	$0.00	0	$502,400 00
(c) Other Reimbursable Expenses	$0.00	$8,826.00	$9,201.00	$13,929.00	$33,150.79	$5,270.00	$18,626.55	$3,179.71	$19,893.48	$0.00	$112,076.53
(d) Reimbursement for Actual Expenses Incurred by GD Personnel in Korea	$0.00	$8,346.00	$8,893.00	$12,619.17	$17,427.83	$24,101.17	$22,233.95	$4,390.98	$0.00	$0.00	$98,012.14
Subtotal	$27,500.00	$73,472.00	$117,694.00	$126,148.17	$289,018.58	$257,891.13	$494,380.50	$278,990.65	$269,893.44	$62,499.99	$1,997,488.46
Monies Paid or Owed to Buyeon by Stromberg-Carlson for:											
(a) Rural Trial DMO					$88,826.00	$52,406.00					$141,232.00
(b) Morning Calm							$122,663.00*	$5,295.00 *			$127,958.00
Monies Paid to Buyeon by Fort Worth for:											
(a) Air Defense Support Fees					$55,400.00	$41,696.00	$41,696.00	$41,696.00	$20,853.00		$201,341.00
GRAND TOTAL	$27,500.00	$73,472.00	$117,694.00	$126,148.17	$433,244.58	$351,993.13	$658,739.50	$325,981.65	$290,746.44	$62,499.99	$2,468,019.46

*The sale of Stromberg-Carlson took place in 1982. Any obligation remaining under this sale became UT Lexar's.

702.

DEPARTMENT OF THE NAVY
OFFICE OF LEGISLATIVE AFFAIRS
WASHINGTON, D. C. 20350

IN REPLY REFER TO

RECEIVED

MAY 21 1985

Subcommittee on
Oversight and Investigations

MEMORANDUM FOR INTERESTED MEMBERS OF CONGRESS

Subj: GENERAL DYNAMICS CORPORATION

1. In view of a long-standing dispute with General Dynamics, as set forth in the attached letter to Mr. David Lewis, Chairman of the Board and Chief Executive Officer of General Dynamics, Secretary of the Navy John Lehman today directed Navy contracting officers immediately to withhold processing of all new contracts for General Dynamics Corporation's Electric Boat and Pomona Divisions pending accomplishment of certain actions by the corporation.

2. On a separate but related matter, the Gratuities Board, convened under authority of Appendix D of the Defense Acquisition Regulation, issued 1 July 1976, found that General Dynamics had given gratuities to Admiral Rickover in the amount of at least $67,628.33. In response to these findings, the Secretary announced the Navy's intention to cancel two contracts with General Dynamics (one with Electric Boat at $12.5M and one with Pomona at $10M) and to demand General Dynamics pay $676,283.30 (ten times the established value of the gratuities) to the Navy. Secretary Lehman also has forwarded a Letter of Censure to Retired Admiral Hyman Rickover.

3. Specifics are included in the attached letters and memorandum.

Sincerely,

DUDLEY CARLSON
Rear Admiral, U.S. Navy
Chief of Legislative Affairs

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

21 May 1985

Mr. David S. Lewis
Chairman of the Board and
  Chief Executive Officer
General Dynamics Corporation
Pierre Laclede Center - Room 2004
St. Louis, Missouri 63105

Dear Mr. Lewis:

On 2 May 1985, Mr. Joseph Sherrick, Inspector General of the Defense Department, recommended that I suspend you, Mr. Gorden MacDonald and Mr. George Sawyer under Subpart 9.4 of the Federal Acquisition Regulations.

On March 5, 1985, the Secretary of Defense directed withholding of payments for general and administrative expenses billed by General Dynamics pending resolution of outstanding issues and established three conditions to be met before resuming payment of general and administrative expenses: (1) withholding the additional funds; (2) establishing new billing rates; and (3) General Dynamics' establishing acceptable internal accounting and management practices.

In the meantime, several investigations conducted under Executive Branch and Congressional cognizance have revealed additional facts which call into question the integrity and responsibility of the corporation.

(1) From 1973 to 1981, General Dynamics Electric Boat Division provided cost and schedule information on submarine construction that was grossly inaccurate. Whether such action was intentional misleading of Navy officials, negligence, or merely unwarranted optimism, it was nevertheless continuing evidence of unreliable reporting by General Dynamics Corporation to the Government.

From 1979 until 1981, General Dynamics Electric Boat Division refused to provide cost and performance data on submarine construction to which the Navy was entitled.

In 1981 General Dynamics Electric Boat Division put forward brazen insurance claims against the Navy for their own negligence and faulty workmanship.

From 1977 to 1981, General Dynamics kept Mr. T. Veliotis, currently a fugitive from justice, in charge of submarine construction. By General Dynamics own testimony, this man was unethical and unreliable to say the least. He was reluctantly removed from the Groton yard only when General Dynamics was told there would be no Navy contracts signed while he remained.

(2) Over an extended period of time officials of General Dynamics gave gratuities to Admiral H. G. Rickover, USN (Ret.) with the intent to obtain as favorable treatment as might be possible from the one Government official who could most affect the operations at Electric Boat Division, all in violation of the terms of General Dynamics contracts with the Navy. Ref: Separate letter to you this date.

(3) General Dynamics Corporation has consistently claimed unallowable costs in overhead allocated to Navy contracts. For example, for 1982 the contractor claimed entitlement to reimbursement of such costs as dues and fees paid to over twenty country clubs, social clubs and organizations; contributions and donations to over fifty organizations; lobbying expenses; entertainment; advertising expenses; sunglasses, T-shirts, and flashing hats; expenses of international air shows; and spouse's travel. Indeed, individual memberships in country and social clubs were included in travel expense accounts. You have refused to settle disputes on overhead at Electric Boat Division since 1973; at Pomona since 1979, and at Corporate since 1979. All this time you have held disputed amounts, delayed settlement, and accrued the interest.

(4) In 1984 General Dynamics continued to charge unallowable costs to travel accounts to be charged to the Government even though it had committed to shift such charges to company funding. A special audit by DCAA of certain costs being charged from January to August of 1984, showed at least one senior official continuing to be reimbursed for such expenses as spouse's travel, house-sitting and dog-boarding as well as individual memberships and fees of country clubs and social organizations.

In many cases involving disputes on overhead in cases going back at least to 1973, the response by General Dynamics is the same; promises to correct the abuse, and a prompt return to business as usual.

(5) Officials and employees of General Dynamics, Pomona Division used Government classified documents to prepare business proposals and marked the Government's own information with proprietary legends.

Those who have expressed opinions in defense of General Dynamics' conduct have spoken in terms of a superseding obligation to maximize the interests of General Dynamics stockholders. In defending the essential failure of General Dynamics to pay income taxes since 1972, they have asserted that the abundance of legislation, case law and regulation demonstrate the intent of the Congress to permit these practices.

We believe that suppliers to the Government have a public trust and suppliers to the Defense Department have a special obligation to be guided by the highest ethical standards.

The Secretary of Defense's direction to withhold payments of General Dynamics' general and administrative expenses continues in effect. It will not be rescinded until the Secretary is satisfied that the company's shortcomings in its practices concerning overhead billing have been fully remedied. At the same time, I am concerned that the other improper practices of the company set out above that affect the Navy require additional action on my part.

In order to assure that the Department of the Navy will not be subject to these continuing abuses, I am directing Navy contracting officers to hold off further processing of Navy contracts with the Electric Boat Division and Pomona Division of General Dynamics Corporation, pending the accomplishment of certain management changes by General Dynamics. Until these conditions are met no Navy contracting officer can determine that a contract award to General Dynamics Corporation is most advantageous to the Navy, or that its price is fair and reasonable.

Specifically, the following conditions must be met:

(1) Establish and enforce a rigorous code of ethics for all General Dynamics officers and employees with mandatory sanctions for violation.

(2) Resubmit and certify all outstanding overhead proposals.

(3) Negotiate in good faith to achieve final overhead rates in all outstanding disputed cases.

(4) Settle all adjudicated overhead disputes still outstanding with the Navy.

Your prompt efforts to resolve these issues will be greatly appreciated.

Sincerely,

John Lehman

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

21 May 1985

Mr. David S. Lewis
Chairman of the Board and
Chief Executive Officer
General Dynamics Corporation
Pierre Laclede Center - Room 2004
St. Louis, Missouri, 63105

Dear Mr. Lewis:

The Ad Hoc Gratuities Board established 21 November 1984, has completed its report regarding General Dynamics and a copy is enclosed.

The Board found there had been extensive gift-giving by General Dynamics officials between 1961 and 1977 to one Government official. The Board states that there was a clear intent to obtain as favorable treatment as possible for General Dynamics, from Admiral Rickover.

Accordingly, in view of the recommendations of the Gratuities Board it is my intention to cancel contract N00 123-84-C-0169 with General Dynamics, Pomona ($10 million) and N00 024-84-C-4405 with General Dynamics Electric Boat ($12.5 million), and to demand that General Dynamics pay to the Navy as exemplary damages the sum of $676,283.30, which is ten times the value of gratuities given as computed by the Gratuities Board.

I have today issued a Letter of Censure to Admiral Rickover for his acceptance of these gifts, many of which were suggested, encouraged and even demanded by him. That letter will become a permanent part of Admiral Rickover's service record.

As requested, you are allowed fourteen days from the date of this letter to submit any additional information or comments on the findings and recommendations of the Board, and this proposed action. Final action will be taken by 4 June 1985.

Sincerely,

John Lehman

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

21 May 1985

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: RECOMMENDATION FOR THE CONSIDERATION OF SUSPENSION IN CONNECTION WITH ACTIONS BY GENERAL DYNAMICS CORPORATION EXECUTIVES

This is in response to your memorandum of 2 May 1985, which recommended that the Navy give immediate consideration to suspending three high level officials of the General Dynamics Corporation. Let me address each case in turn:

(1) Paragraph 1 of your memorandum: "Enclosure 1 contains evidence that indicates that Messrs. Lewis and MacDonald were personally involved in a decision to issue a press release which falsely stated that the first Trident submarine would be delivered in October 1979, when in fact they knew at the time that it could not be delivered before the end of 1980. The false press release was issued to halt a decline in the value of General Dynamics stock. This may be a violation of 15 U.S.C. 77 q(a) and 15 U.S.C. 78 j(b), of Federal security laws which cover stock manipulation, as well as the requirement for corporate officers to provide full and fair disclosure of information to stockholders and investors."

This matter is currently under investigation. Messrs. Lewis and MacDonald have denied these allegations under oath. We shall follow this investigation and take action if warranted on the facts established.

(2) Paragraph 2 of your memorandum: "Enclosures 1 and 2 contain evidence which indicates that Mr. MacDonald admitted to directing a General Dynamics employee to purchase two pieces of jewelry, having a value of approximately $1,125 for Admiral Rickover's wife. In addition, there is evidence that Mr. MacDonald discussed the proposed gifts with Mr. Lewis prior to ordering their purchase and delivery. This may have been a violation of 18 U.S.C. 201 concerning gratuities and 10 U.S.C. which prohibits the provision of gratuities on Government contracts."

The Ad Hoc Gratuities Board has submitted its report to me and I have taken appropriate action by demanding exemplary damages ten times the value of the gratuities and cancellation of two contracts involving more than $20 million. I do not believe that debarment of Messrs. Lewis and MacDonald would be the appropriate response based on the facts established by the Board.

(3) Paragraph 3 of your memorandum stated "Enclosure 3 contains facts showing that from March through May 1983, Messrs. Lewis, MacDonald and Sawyer engaged in negotiations concerning the potential employment of Mr. Sawyer. These negotiations occurred while Mr. Sawyer, who was at the time Assistant Secretary of the Navy for Shipbuilding and Logistics, had the authority to and did make decisions affecting General Dynamics Corporation. This may be a violation of 18 U.S.C. 207 and 208 concerning conflicts of interest."

Mr. Sawyer acted on my behalf as ASN(S&L). From the time he informed me in February 1983 that he was leaving until his departure in June, he made no substantive decision concerning General Dynamics Corporation of which I am aware. Throughout his tenure he performed to the very highest ethical standards and I have no evidence that he knowingly acted in conflict of interest at any time.

(4) Paragraph 4 of your memorandum stated " Enclosure (3) also contains evidence that Mr. Sawyer stated to Navy officials that he had not negotiated for employment with General Dynamics prior to May 20, 1983, when in fact he had begun discussions with General Dynamics regarding employment possibilities as early as March 1983. For example, on March 25, 1983 and May 18, 1983 he traveled to St. Louis, Missouri, and Chicago, Illinois, respectively, for the purpose of discussing employment possibilities with General Dynamics. These trips were paid for by General Dynamics. This may be a violation of 18 U.S.C. 1001 concerning false statements."

These matters are currently under investigation by the Department of Justice. Appropriate action will be taken if warranted on the facts established.

In summary, while I do not agree with your recommendations with regard to Messrs. Lewis, MacDonald, and Sawyer, I have notified Mr. Lewis that we are holding off processing all new contracts with General Dynamics Electric Boat Division and Pomona Division until changes are made. I enclose a copy of my letter to Mr. Lewis.

As in the past, I know we can count on your full support in resolving these problems.

John Lehman